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8 UNITED STATES DISTRICT COURT
9 CENTRAL DISTRICT OF CALIFORNIA

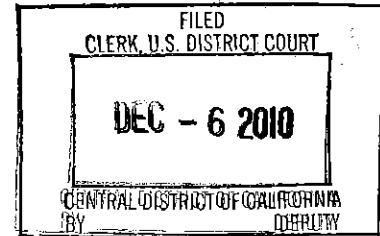
10 MAINE STATE RETIREMENT SYSTEM,
11 Individually and On Behalf of All Others
12 Similarly Situated,

13 Plaintiff,

14 v.

15 COUNTRYWIDE FINANCIAL
16 CORPORATION; COUNTRYWIDE
17 SECURITIES CORPORATION;
18 COUNTRYWIDE HOME LOANS, INC.;
19 COUNTRYWIDE CAPITAL MARKETS;
20 BANK OF AMERICA CORP.; NB
21 HOLDINGS CORPORATION; CWALT,
22 INC.; CWMBS, INC.; CWABS, INC.;
23 CWHEQ, INC.; J.P. MORGAN
24 SECURITIES, INC.; DEUTSCHE BANK
25 SECURITIES INC.; BEAR, STEARNS &
26 CO., INC.; JPMORGAN CHASE, INC.;
27 BANC OF AMERICA SECURITIES LLC;
28 UBS SECURITIES LLC; MORGAN
STANLEY & CO., INC.; EDWARD D.
JONES & CO., L.P.; CITIGROUP GLOBAL
MARKETS, INC.; GOLDMAN, SACHS &
CO.; CREDIT SUISSE SECURITIES (USA)
LLC; RBS SECURITIES INC.; BARCLAY'S
CAPITAL, INC.; HSBC SECURITIES (USA)
INC.; BNP PARIBAS SECURITIES CORP.;
MERRILL LYNCH, PIERCE, FENNER &
SMITH, INC.; STANFORD L. KURLAND;
DAVID A. SPECTOR; ERIC P. SIERACKI;
N. JOSHUA ADLER; RANJIT KRIPALANI;
JENNIFER S. SANDEFUR; THOMAS
KEITH MCLAUGHLIN; THOMAS H.
BOONE; JEFFREY P. GROGIN; DAVID A.
SAMBOL,

Defendants.



No. 2:10-CV-00302 MRP
(MAN)

CLASS ACTION

**SECOND AMENDED CLASS
ACTION COMPLAINT**

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1 In accordance with the Court's Opinion and Order dated November 4, 2010
2 ("Countrywide Tolling Decision"), Lead Plaintiff Iowa Public Employees'
3 Retirement System and additional named plaintiffs the General Board of Pension
4 and Health Benefits of the United Methodist Church, Orange County Employees'
5 Retirement System, and Oregon Public Employees' Retirement System
6 (collectively, "Plaintiffs"), allege the following upon personal knowledge as to
7 themselves and their own acts and upon information and belief as to all other
8 matters. Plaintiffs' information and belief is based on the investigation of their
9 counsel. The investigation included, for example: (i) review and analysis of the
10 offering materials for the Certificates as defined below, and the Certificates' rating
11 histories; (ii) examination of the monthly service or remittance reports issued in
12 connection with the Certificates; (iii) examination of the SEC filings, press releases
13 and other public statements of Countrywide Financial Corporation ("CFC"); (iv)
14 review and analysis of court filings cited herein; (v) review and analysis of media
15 reports, congressional testimony and additional material; and (vi) analysis of the
16 Securities and Exchange Commission's ("SEC") Summary Report of Issues
17 Identified in the Commission Staff's Examinations of Select Credit Rating
18 Agencies ("SEC Report") and additional documents cited herein. Many of the
19 facts related to Plaintiffs' allegations are known only by the Defendants named
20 herein, or are exclusively within their custody or control. Plaintiffs believe that
21 substantial additional evidentiary support for the allegations set forth below will be
22 developed after a reasonable opportunity for discovery.

23 Plaintiffs undertake this amendment to comply with the Countrywide
24 Tolling Decision. In so doing, Plaintiffs do not waive and hereby preserve all
25 previously asserted claims regarding all securities included in the Consolidated
26 Amended Class Action Complaint ("First Amended Complaint," or "FAC") in this
27 action as if fully set forth herein.
28

I. SUMMARY OF THE ACTION

1. This Complaint is brought by Plaintiffs pursuant to the Securities Act of 1933, 15 U.S.C. § 77a, *et seq.* (the “Securities Act”), on behalf of all persons or entities who purchased or otherwise acquired \$17.83 billion of mortgage-backed securities (“MBS” or “Certificates”) issued pursuant or traceable to Registration Statements, Original Basic Prospectuses, and Prospectus Supplements (collectively, the “Offering Documents”) filed with the SEC: (1) Alternative Loan Trust Certificates issued by Defendant CWALT, Inc. (“CWALT”); (2) CWABS Asset-Backed Trust Certificates issued by Defendant CWABS, Inc. (“CWABS”); (3) CHL Mortgage Pass-Through Trust Certificates issued by Defendant CWMBS, Inc. (“CWMBS”); and (4) CWHEQ Revolving Home Equity Loan Trusts and Home Equity Loan Trusts issued by Defendant CWHEQ, Inc. (“CWHEQ”) (CWALT, CWABS, CWMBS, and CWHEQ are collectively referred to herein as the “Depositors” or “Issuers”). All of the Certificates were collateralized by residential mortgage loans that Countrywide Home Loans, Inc. (“Countrywide”) or its affiliates originated. The Certificates were sold in 14 separate public offerings (the “Offerings”) over thirty-four months between October 2005 and December 2006. A complete list of each Offering that is the subject of this Second Amended Class Action Complaint (“SAC”) is set forth in **Exhibit A** of the accompanying Appendix (“SAC Appendix”).

2. The Offerings were underwritten by Defendants Countrywide Securities Corporation (“CSC”), Deutsche Bank Securities Inc. (“Deutsche Bank”), UBS Securities LLC (“UBS”), Morgan Stanley & Co., Inc. (“Morgan Stanley”), Goldman, Sachs & Co. (“Goldman Sachs”), RBS Securities Inc. f/k/a RBS Greenwich Capital d/b/a Greenwich Capital Markets, Inc. (“RBS”), Barclay’s Capital, Inc. (“Barclay’s”) and HSBC Securities (USA) Inc. (“HSBC”) (collectively the “Underwriters” or “Underwriter Defendants”).

3. Plaintiffs assert claims for violations of Sections 11, 12(a)(2) and 15

1 of the Securities Act, 15 U.S.C. §§ 77k, 77l(a)(2) and 77o, arising from material
2 misstatements and omissions in the Registration Statements, Prospectuses and
3 subsequently-filed Prospectus Supplements (collectively referred to herein as the
4 “Offering Documents”). Accordingly, this action involves claims of negligence
5 and strict liability under the Securities Act. The Complaint asserts no allegations
6 of fraud on the part of any Defendant.

7 4. From 2005 through 2007, Countrywide was the nation’s largest
8 residential mortgage lender. Countrywide originated in excess of \$850 billion in
9 home loans throughout the United States in 2005 and 2006 alone. Countrywide’s
10 ability to originate residential mortgages on such a massive scale was facilitated, in
11 large part, by its ability to rapidly package or securitize those loans and then,
12 through the activities of the Underwriter Defendants, sell them to investors as
13 purportedly investment grade mortgage-backed securities.

14 5. Each Offering operated in the same manner. A special-purpose trust
15 (the “Issuing Trust”) was created by the Depositor to hold the underlying mortgage
16 loan collateral. Certificates entitled investors to receive monthly distributions of
17 interest and principal from the Issuing Trusts derived from cash flows from
18 borrower repayment of the mortgage loans. The cash flows from the principal and
19 interest payments from those mortgage loans were then divided into multiple
20 classes, or “tranches,” of senior and subordinated Certificates. If borrowers failed
21 to pay back their mortgages, these losses would flow to Plaintiffs based on the
22 seniority of their Certificates. However, since all of the Certificates issued by an
23 individual Issuing Trust were backed by the pool of mortgages associated with that
24 Issuing Trust, a decline in the value of the mortgages in the pool arising from
25 delinquencies, defaults, or other problems with the particular loans would cause a
26 decline in the value of each and every class or tranche of Certificates in the Issuing
27 Trust, regardless of the subordination of certain Certificates to more senior ones.

28 6. The assembly line created by Countrywide and the Underwriter

1 Defendants for the mass production and sale of the Certificates began with
2 Countrywide and its affiliates originating the mortgage loans. These loans were all
3 purportedly underwritten pursuant to specific loan origination guidelines set forth
4 in the Offering Documents. The guidelines provided, *inter alia*, that Countrywide
5 and its affiliates would assess borrower creditworthiness and appraise the value of
6 the mortgaged property pursuant to standard appraisal methodologies. As set forth
7 below, these descriptions of the loan origination guidelines in the Offering
8 Documents contained material misstatements and omissions since, in fact, the
9 guidelines were systematically disregarded to include borrowers who did not meet
10 the aforementioned criteria.

11 7. Once the loans were originated they were ultimately sold to the
12 Depositors who were all limited purpose entities created by CFC. The Depositors
13 would deposit the loans into Issuing Trusts and, along with the Underwriter
14 Defendants and the Rating Agencies, including Moody's Investors Service, Inc.
15 ("Moody's"), Standard & Poor's ("S&P") and Fitch Ratings, Inc. ("Fitch")
16 (collectively referred to herein as the "Rating Agencies"), design the structure of
17 each Offering. The Offering structures determined how the cash flows from the
18 mortgage loans would be distributed to different senior and subordinate classes of
19 Certificate investors. Each Offering purported to provide various forms of investor
20 protections and purported to justify the investment grade ratings assigned to the
21 Certificates.

22 8. It was critically important to the Underwriter Defendants not only that
23 all of the Certificates be assigned investment grade ratings by the Rating Agencies
24 at the time of issuance, but that they be assigned the highest investment grade
25 ratings. The highest investment rating used by the Rating Agencies is AAA (Aaa
26 for Moody's), which signifies the highest investment grade and suggests that there
27 is almost no risk of investment loss associated with the security – the safest
28 investment next to U.S. Treasury bonds. Ratings of "AA," "A" and "BBB"

1 represent very high credit quality, high credit quality, and good credit quality,
2 respectively. There are various intermediate ratings between BBB and AAA.
3 Anything rated lower than BBB is considered speculative or “junk,” *i.e.*, not
4 investment grade.

5 9. In fact, all of the Countrywide-issued Certificates were assigned
6 investment grade ratings and over 90% received the highest investment grade
7 ratings. These ratings assured the rapid sale of the Certificates to conservative
8 investors such as public and private pension funds and insurance companies whose
9 investment guidelines typically require them to purchase only investment grade
10 securities. The Underwriter Defendants exercised their substantial economic
11 power by soliciting the Rating Agencies to bid for the ratings engagements via the
12 Rating Agencies’ proposed ratings of the Certificates. The Underwriters’
13 competitive selection process for securing ratings, known as “ratings shopping,”
14 ensured that the highest investment grade ratings were assigned to substantially all
15 of the Certificates.

16 10. After the Certificates were issued, facts began to emerge reflecting
17 that the mortgage collateral supporting the purported investment grade securities
18 was fundamentally impaired and that the guidelines described in the Offering
19 Documents had been systematically disregarded.¹

20 11. No matter when the Offering occurred, the default and delinquency
21 rates of the Certificates at issue herein skyrocketed exponentially in the first year
22 after the loans were originated, reflecting en mass early payment defaults. Such
23 early defaults are a strong indicator that origination guidelines have not been
24 applied, *infra* ¶¶102-09, 113.

25
26 ¹ For purposes of the Securities Act, the Depositor is considered the “Issuer”
27 under Section 2(a)(4), 15 U.S.C. § 77b(a)(4). The “issuing entity” in each Offering
28 was the specifically denominated Issuing Trust, *e.g.*, for the CWALT Series 2005-
62 \$1,559,819,100 Offering on October 28, 2005, the Issuer was CWALT, Inc. and
the issuing entity was the Issuing Trust denominated “Alternative Loan Trust
2005-62.”

1 12. As a result of such poor loan performance the Rating Agencies were
2 forced not merely to downgrade isolated Certificates, but rather to revise the entire
3 methodology used to assign investment grade ratings to the Certificates. Further,
4 in making these fundamental revisions, the Rating Agencies explained that the
5 impetus for the change was previously undisclosed and systematic “aggressive
6 underwriting” practices used to originate the mortgage loan collateral. When these
7 revised methodologies were applied to the Certificates in 2008 and 2009, the result
8 was an unprecedented collapse of the investment grade ratings. Indeed, the
9 Certificates bearing the highest investment grade ratings collapsed largely in one
10 fell swoop – not merely one or two rating levels, but *as much as 22 rating levels* to
11 below investment grade or junk bond rating. Indeed, 91% of the Certificates have
12 been downgraded to junk bond levels – including over 90% of the Certificates
13 initially awarded AAA/maximum-safety ratings, *infra* ¶¶107-114.

14 13. Investigations into Countrywide’s loan origination practices during
15 the period from 2005 through 2007 and presented in actions filed by the SEC
16 against Countrywide and its senior management, including Angelo Mozilo
17 (“Mozilo”), David Sambol (“Sambol”) and Eric Sieracki (“Sieracki”), as well as by
18 the Illinois and California attorneys general have confirmed, as a result of those
19 agencies’ subpoena power, that Countrywide’s underwriting guidelines were
20 systematically disregarded. In addition, MBIA Insurance Corp. (“MBIA”), one of
21 the largest providers of bond insurance, brought its own lawsuit against
22 Countrywide alleging that Countrywide fraudulently induced it to insure certain
23 Certificates at issue in this action based on its improper loan origination practices.
24 Moreover, allegations set forth in complaints against Countrywide alleging
25 derivative and securities claims have further detailed Countrywide’s rampant
26 disregard for its own loan origination guidelines.

27 14. Fourth, more general government investigations into the issuance of
28 mortgage-backed securities during the period when the Certificates were issued

1 have also confirmed a systemic disregard for loan origination guidelines. Thus, for
2 example, according to the March 2008 policy statement of the President's Working
3 Group on Financial Markets (the "President's Working Group"), the underlying
4 causes of the mortgage crisis include, *inter alia*: (i) "a breakdown in underwriting
5 standards for subprime mortgages"; and (ii) "a significant erosion of market
6 discipline by those involved in the securitization processes, including originators
7 [and] underwriters ... related in part to failures to provide or obtain adequate risk
8 disclosures."

9 15. Finally, commensurate with the exponential increases in delinquency
10 and default rates in the underlying mortgages and the Certificates' ratings collapse,
11 the value of the Certificates has plummeted.

12 16. As a result of Countrywide's systemic disregard for its underwriting
13 guidelines, numerous statements set forth in the Offering Documents contained
14 material misstatements and omissions, including regarding: (i) the high quality of
15 the mortgage pools underlying the Issuing Trusts, resulting from the underwriting
16 standards employed to originate the mortgages, the value of the collateral securing
17 the mortgages, and the soundness of the appraisals used to arrive at this value; (ii)
18 the mortgages' loan-to-value ("LTV") ratios; and (iii) other criteria that were used
19 to qualify borrowers for mortgages.

20 17. The widespread collapse of Countrywide mortgages not only resulted
21 in damage to Certificate investors but also drove Countrywide toward the brink of
22 bankruptcy. To survive, Countrywide merged with Bank of America in a \$4.1
23 billion stock exchange in January 2008.

24 **II. JURISDICTION AND VENUE**

25 18. The claims asserted herein arise under and pursuant to Sections 11,
26 12(a)(2), and 15 of the Securities Act, 15 U.S.C. §§ 77k, 771(a)(2) and 77o. This
27 Court has jurisdiction over the subject matter of this action pursuant to Section 22
28 of the Securities Act, 15 U.S.C. § 77v and 28 U.S.C. § 1331.

1 19. Venue is proper in this District pursuant to Section 22 of the
2 Securities Act and 28 U.S.C. § 1391(b) and (c). Many of the acts and conduct
3 complained of herein occurred in substantial part in this District, including the
4 dissemination of the Offering Documents, which contained material misstatements
5 and omissions, complained of herein. In addition, Defendants conduct business in
6 this District.

7 20. In connection with the acts and conduct alleged herein, Defendants,
8 directly or indirectly, used the means and instrumentalities of interstate commerce,
9 including the mails and telephonic communications.

10 **III. PROCEDURAL HISTORY**

11 21. The instant litigation was originally commenced on November 14,
12 2007 with the filing of *Luther v. Countrywide Home Loans Servicing LP, et al.*,
13 Case No. BC380698 (Cal. Superior Court, Los Angeles County) ("Initial Luther
14 Complaint"). The Initial Luther Complaint asserted claims for violations of
15 Sections 11, 12(a)(2) and 15 of the Securities Act on behalf of a class of all
16 purchasers of 188 Offerings of Countrywide MBS issued by Defendant CWALT
17 between January 2005 and June 2007 pursuant to five separate Shelf Registration
18 Statements. **See SAC Appendix Exhibit C.** All 188 Offerings included in the
19 Initial Luther Complaint are included in the FAC. The Offerings included in the
20 Initial Luther Complaint are set forth in **SAC Appendix Exhibit D**, annexed
21 hereto. ***There were no PSLRA Certifications identifying the securities purchased***
22 ***by the named Plaintiffs accompanying the filing of the Initial Luther Complaint,***
23 ***nor did the Initial Luther Complaint include allegations of specific securities***
24 ***purchased by the named plaintiff.***

25 22. Thereafter, on June 14, 2008, a second action was filed in California
26 State Superior Court captioned *Washington State Plumbing & Pipefitting Pension*
27 *Trust v. Countrywide Financial Corporation, et al.*, Case No. BC392571 (Cal.
28 Superior Court, Los Angeles County) ("Washington State Action" or "Washington

1 State Complaint"). The named Plaintiff, Washington State Plumbing & Pipefitting
2 Pension Trust ("Washington State") asserted claims on behalf of a class of all
3 purchasers of 398 Offerings of Countrywide MBS issued between June 13, 2005
4 and December 27, 2007 pursuant to 19 separate Shelf Registration Statements. *See*
5 **SAC Appendix Exhibit C**. Three hundred and ninety-six Offerings included in
6 the Washington State Complaint were included in the FAC. The Offerings
7 included in the Washington State Complaint are set forth in **SAC Appendix**
8 **Exhibit D**, annexed hereto. *There were no PSLRA Certifications identifying the*
9 *securities purchased by the named Plaintiffs accompanying the filing of the*
10 *Washington State Complaint, nor did the Washington State Complaint include*
11 *allegations identifying the specific securities purchased by the named plaintiffs.*

12 23. Thereafter, on September 9, 2008, an amended complaint was filed in
13 *Luther* ("Amended Luther Complaint"), adding four additional plaintiffs to the
14 action – Vermont Pension Investment Committee ("Vermont"), Mashreqbank,
15 P.S.C. ("MASH"), Pension Trust Fund for Operating Engineers ("PTOE") and
16 Operating Engineers Annuity Plan ("OEAP"). The named plaintiffs asserted
17 claims on behalf of a class of all purchasers of 428 Offerings of Countrywide MBS
18 issued between January 2005 and December 2007 pursuant to 20 separate Shelf
19 Registration Statements. *See SAC Appendix Exhibit C*. All 427 Countrywide
20 Offerings in the FAC were included in the Amended Luther Complaint. The
21 Offerings included in the Amended Luther Complaint are set forth in **SAC**
22 **Appendix Exhibit D**, annexed hereto. *There were no PSLRA Certifications*
23 *identifying the securities purchased by the named Plaintiffs accompanying the*
24 *filing of the Amended Luther Complaint, nor did the Amended Luther*
25 *Complaint include allegations identifying the specific securities purchased by the*
26 *named plaintiffs.*

27 24. After consolidation of the *Luther* and *Washington State* actions, a
28 consolidated complaint was filed on October 16, 2008 (the "Luther Consolidated

Complaint”), naming Luther, Vermont, MASH, PTOE, OEAP and Washington State as plaintiffs. In addition, the Luther Consolidated Complaint added Maine State Retirement System (“Maine”) as an additional named plaintiff. Vermont, MASH, PTOE, OEAP, Maine and Washington State are collectively referred to herein at times as the “Luther Plaintiffs.” These plaintiffs asserted claims on behalf of a class of all purchasers of 428 Offerings of Countrywide MBS issued between January 2005 and December 2007 pursuant to 20 separate Shelf Registration Statements. **See SAC Appendix Exhibit C.** Again, all 427 Countrywide MBS Offerings in the FAC were included in the Luther Consolidated Complaint. The Offerings included in the Luther Consolidated Complaint are set forth in **SAC Appendix Exhibit D**, annexed hereto. *There were no PSLRA Certifications identifying the securities purchased by the named Plaintiffs accompanying the filing of the Luther Consolidated Complaint, nor did the Luther Consolidated Complaint include allegations identifying the specific securities purchased by the named plaintiffs.*

25. On January 14, 2010, after being dismissed due to lack of subject matter jurisdiction in state court, counsel for the Luther Plaintiffs filed *Maine State Retirement System v. Countrywide Financial Corporation, et al.*, Civ. No. 10-00302-MRP-MAN (C.D. Cal. Jan. 14, 2010) (the “Federal Action” or “Federal Complaint”). Maine State Retirement System was the sole named plaintiff in the Federal Complaint, which set forth identical allegations regarding the same 428 Countrywide Offerings as the Luther Consolidated Complaint. **See SAC Appendix Exhibit C.** All 427 Offerings in the FAC were included in the Federal Complaint. The Offerings included in the Federal Complaint are set forth in **SAC Appendix Exhibit D**, annexed hereto. *Annexed to the Federal Complaint was the Certification of Maine State Retirement System which set forth the specific Countrywide MBS which Maine had purchased.*

26. The Luther Plaintiffs also appealed their dismissal by the Superior

1 Court to the California Court of Appeals (Second Appellate District). That appeal
2 remains pending.

3 27. There were no PSLRA Certifications or allegations setting forth
4 precisely which Offerings the remaining five Luther Plaintiffs (*i.e.*, MASH, PTOE,
5 OEAP, Washington State and Vermont) purchased until the filing of the motions
6 for lead plaintiff in this action on April 2, 2010. *See* Dkt. Nos. 86-89. Moreover,
7 the specific Countrywide Certificates purchased by the named plaintiff in the
8 Luther Action, David Luther, have never been publicly disclosed or set forth in any
9 previous complaints in this action. In fact, this information was only obtained
10 from Mr. Luther's counsel in response to a request from Plaintiffs' Counsel.
11 Ultimately, on May 17, 2010, IPERS was appointed as Lead Plaintiff in the action.

12 28. On July 13, 2010, IPERS, along with additional named Plaintiffs
13 OCERS, OPERS and GBPHB, filed the FAC in the Federal Action. The FAC
14 asserted claims on behalf of a class of all purchasers of 427 Offerings of
15 Countrywide MBS issued between January 2005 and December 2007 pursuant to
16 19 separate Shelf Registration Statements. ***See* SAC Appendix Exhibit C.** The
17 Offerings included in the FAC are set forth in ***SAC Appendix Exhibit D***, annexed
18 hereto. Thereafter, Defendants moved to dismiss the FAC. By Opinion and Order
19 dated November 4, 2010, the Court granted Defendants' motions to dismiss with
20 leave to replead in accordance with the Countrywide Tolling Decision. This SAC
21 is filed in compliance therewith.

22 **IV. PARTIES**

23 **A. Plaintiffs**

24 29. **Iowa Public Employees' Retirement System** ("IPERS") is a public
25 pension fund for employees of the State of Iowa. IPERS acquired its Certificates
26 pursuant and traceable to one or more Shelf Registration Statements, Original
27 Basic Prospectuses and later-filed Prospectus Supplements. The Offering
28 Documents were rendered materially misleading as a consequence of the same

1 course of conduct with respect to each Offering by Defendants. A Certification
2 documenting IPERS' transactions in the Certificates was filed with IPERS' motion
3 for appointment as lead plaintiff on April 2, 2010. *See* Dkt. No. 80. As set forth in
4 ¶¶60-83, directly below, IPERS purchased the Certificates pursuant and traceable
5 to the Offering Documents and has been damaged thereby.

6 **30. General Board of Pension and Health Benefits of the United**
7 **Methodist Church** ("GBPHB") is the pension fund for the active and retired
8 clergy and lay employees of the United Methodist Church. GBPHB acquired its
9 Certificates pursuant and traceable to one or more Shelf Registration Statements,
10 Original Basic Prospectuses and later-filed Prospectus Supplements. The Offering
11 Documents were rendered materially misleading as a consequence of the same
12 course of conduct with respect to each Offering by Defendants. A Certification
13 documenting GBPHB's transactions in the Certificates was filed with GBPHB's
14 motion for appointment as lead plaintiff on April 2, 2010. *See* Dkt. No. 85. As set
15 forth in ¶¶60-83, directly below, GBPHB purchased its Certificates pursuant and
16 traceable to the Offering Documents and has been damaged thereby.

17 **31. Orange County Employees' Retirement System** ("OCERS") is a
18 public pension fund for the employees of Orange County, California. OCERS
19 acquired its Certificates pursuant and traceable to one or more Shelf Registration
20 Statements, Original Basic Prospectuses and later-filed Prospectus Supplements.
21 The Offering Documents were rendered materially misleading as a consequence of
22 the same course of conduct with respect to each Offering by Defendants. A
23 Certification documenting OCERS' transactions in the Certificates and willingness
24 to serve as a representative party in this litigation was annexed to and filed with the
25 FAC on July 13, 2010. *See* Dkt. No. 122. As set forth in ¶¶60-83, directly below,
26 OCERS purchased its Certificates pursuant and traceable to the Offering
27 Documents and has been damaged thereby.

1 32. **State of Oregon, by and through the Oregon State Treasurer and**
2 **the Oregon Public Employee Retirement Board on behalf of the Oregon**
3 **Public Employee Retirement Fund (“OPERS”)** is a public pension fund for
4 employees of the State of Oregon. OPERS acquired its Certificates pursuant and
5 traceable to one or more Shelf Registration Statements, Original Basic
6 Prospectuses and later-filed Prospectus Supplements. The Offering Documents
7 were rendered materially misleading as a consequence of the same course of
8 conduct with respect to each Offering by Defendants. A Certification documenting
9 OPERS’ transactions in Countrywide MBS and willingness to serve as a
10 representative party in this litigation was annexed to and filed with the FAC on
11 July 13, 2010. *See* Dkt. No. 122. As set forth in ¶¶60-83, directly below, OPERS
12 purchased its Certificates pursuant and traceable to the Offering Documents and
13 has been damaged thereby.

14 **B. Defendants**

15 33. Plaintiffs allege that each and every Defendant is, to the maximum
16 extent permitted by law, jointly and severally liable for the misconduct alleged in
17 this Complaint.

18 **1. Countrywide Defendants**

19 34. Defendant **Countrywide Financial Corporation (“CFC”)** was, at
20 times relevant to this Complaint, a Delaware corporation with its principal
21 executive offices located at 4500 Park Granada, Calabasas, California. CFC was a
22 holding company which, through its subsidiaries, was engaged in mortgage lending
23 and other real estate finance related businesses, including mortgage banking,
24 banking and mortgage warehouse lending, dealing in securities and insurance
25 underwriting. The Company operated through five business segments: Mortgage
26 Banking, which originated, purchased, sold and serviced non-commercial
27 mortgage loans nationwide; Banking, which took deposits and invested in
28 mortgage loans and home equity lines of credit; Capital Markets, which operated

1 an institutional broker-dealer that primarily specialized in trading and underwriting
2 MBS; Insurance, which offered property, casualty, life and disability insurance as
3 an underwriter and as an insurance agency; and Global Operations, which licensed
4 and supported technology for mortgage lenders in the United Kingdom. As
5 discussed below, CFC merged with and became Bank of America in 2008. The
6 Issuer Defendants, as set forth below, were controlled directly by the Individual
7 Defendants and CFC, including by the appointment of CFC executives as directors
8 and officers of these entities. Revenues flowing from the issuance and sale of
9 MBS issued by CWALT, CWMBS, CWABS and CWHEQ and the Issuing Trusts
10 were passed through to CFC and consolidated into CFC's financial statements.
11 Defendant CFC, therefore, exercised actual day-to-day control over Defendants
12 CWALT, CWMBS, CWABS, and CWHEQ. Defendant CFC was a named
13 defendant in the Washington State Complaint, the Amended Luther Complaint, the
14 Consolidated Luther Complaint, the Federal Complaint and the FAC. These
15 complaints alleged that CFC's role relating to the creation and sale of MBS
16 violated the Securities Act. The claims asserted in this SAC as they relate to CFC
17 were tolled under the Countrywide Tolling Decision for the Offerings set forth in
18 **SAC Appendix Exhibits E & F.**

19 35. Defendant **Countrywide Securities Corporation** ("CSC") is a
20 broker-dealer within CFC. According to CFC's Form 10-K for the year ended
21 December 31, 2007, filed with the SEC on February 29, 2008 ("2007 Form 10-K"),
22 CSC "primarily specializes in trading and underwriting MBS." The financial
23 results of CSC are set forth in the Capital Markets section of CFC's financial
24 statements. CFC further stated in its 2007 Form 10-K that it was "ranked fourth
25 among Non-Agency MBS Underwriters" for 2007. Defendant CSC was a named
26 defendant in the Initial Luther Complaint, the Washington State Complaint, the
27 Amended Luther Complaint, the Consolidated Luther Complaint, the Federal
28 Complaint and the FAC. These complaints alleged that CSC's conduct relating to

1 the creation and sale of MBS violated the Securities Act. The claims asserted in
2 this SAC as they relate to CFC were tolled under the Countrywide Tolling
3 Decision for the Offerings set forth in SAC Appendix Exhibits E & F. Defendant

4 36. **Countrywide Home Loans, Inc. ("CHL")** was, at times relevant to
5 this Complaint, a direct wholly-owned subsidiary of CFC. CHL was engaged in
6 the mortgage banking business, and originated, purchased, sold and serviced
7 mortgage loans. CHL's principal executive offices were located at 4500 Park
8 Granada, Calabasas, California, the same location as CFC. CHL served as the
9 "Sponsor" or "Seller" of the Certificates, meaning that it played a central role in
10 providing the pools of mortgage loans to the Issuing Trusts upon which the
11 Certificates were based. Defendant CHL was a named defendant in the Initial
12 Luther Complaint, the Washington State Complaint, the Amended Luther
13 Complaint, the Consolidated Luther Complaint, the Federal Complaint and the
14 FAC. These complaints alleged that CHL's conduct relating to the creation and
15 sale of MBS violated the Securities Act. The claims asserted in this SAC as they
16 relate to CHL were tolled under the Countrywide Tolling Decision for the
17 Offerings set forth in **SAC Appendix Exhibits E & F.**

18 37. Defendant **Countrywide Capital Markets ("CCM")** was, at times
19 relevant to this Complaint, a direct wholly-owned subsidiary of CFC. CCM's
20 principal executive offices were located at 4500 Park Granada, Calabasas,
21 California, the same location as CFC. CCM operated through its two main wholly-
22 owned subsidiaries, CSC and Countrywide Servicing Exchange. According to
23 CFC's 2007 Form 10-K, "Capital Markets participates in both competitive bid and
24 negotiated underwritings and performs underwriting services for CHL,
25 Countrywide Bank and third parties." The financial results of CCM were set forth
26 in the Capital Markets section of CFC's financial statements. Defendant CCM was
27 a named defendant in the Consolidated Luther Complaint, the Federal Complaint
28 and the FAC. These complaints alleged that CCM's conduct relating to the

1 creation and sale of MBS violated the Securities Act. The claims asserted in this
2 SAC as they relate to CCM were tolled under the Countrywide Tolling Decision
3 for the Offerings set forth in **SAC Appendix Exhibits E & F.**

4 38. Defendant **Bank of America Corp.** ("Bank of America") is a
5 successor to Defendant CFC, having *de facto* merged with CFC. On July 1, 2008,
6 Defendant CFC completed a merger with Red Oak Merger Corporation ("Red
7 Oak"), a wholly-owned subsidiary of Bank of America, pursuant to the terms of an
8 Agreement and Plan of Merger, dated as of January 11, 2008, by and among Bank
9 of America, Red Oak, and CFC. The acquisition was through an all-stock
10 transaction involving a Bank of America subsidiary that was created for the sole
11 purpose of facilitating the acquisition of CFC. The Countrywide brand was retired
12 shortly after the merger and currently CFC's former website redirects to the Bank
13 of America website. Moreover, Bank of America has assumed CFC's liabilities,
14 having paid to resolve other litigation arising from misconduct such as predatory
15 lending allegedly committed by CFC. *See, e.g.,* Shayndi Raice and Marshall
16 Eckblad, Countrywide's Mess Billed to Bank of America, *Wall St. J.* (June 7,
17 2010). Substantially all of Countrywide's assets were transferred to Bank of
18 America on November 7, 2008, in connection with Countrywide's integration with
19 Bank of America's other businesses and operations, along with certain of
20 Countrywide's debt securities and related guarantees. CFC ceased filing its own
21 financial statements in November 2008, and instead its assets and liabilities have
22 been included in Bank of America's financial statements. Further, many of the
23 same locations, employees, assets and business operations that were formerly CFC
24 continue under the Bank of America Home Loans brand. CSC, CHL and CCM
25 likewise are now part of Bank of America. As noted above, Defendant CFC, of
26 which Bank of America is a successor in interest, was a named defendant in the
27 Washington State Complaint, the Amended Luther Complaint, the Consolidated
28 Luther Complaint, the Federal Complaint and the FAC. These complaints alleged

1 that CFC's conduct relating to the creation and sale of MBS violated the Securities
2 Act. The claims asserted in this SAC as they relate to CFC were tolled under the
3 Countrywide Tolling Decision for the Offerings set forth in **SAC Appendix**
4 **Exhibits E & F.**

5 39. Defendant **NB Holdings Corporation** is one of the shell entities used
6 to effectuate the Bank of America-CFC merger, and is a successor to Defendant
7 CHL. On July 3, 2008, Defendant CHL completed the sale of substantially all of
8 its assets to NB Holdings Corporation, a wholly-owned subsidiary of Bank of
9 America. As noted above, Defendant CHL, of which Defendant NB Holdings is a
10 successor in interest, was a named defendant in the Initial Luther Complaint, the
11 Washington State Complaint, the Amended Luther Complaint, the Consolidated
12 Luther Complaint, the Federal Complaint and the FAC. These complaints alleged
13 that CHL's conduct relating to the creation and sale of MBS violated the Securities
14 Act. The claims asserted in this SAC as they relate to CHL were tolled under the
15 Countrywide Tolling Decision for the Offerings set forth in **SAC Appendix**
16 **Exhibits E & F.** CFC, CSC, CCM, CHL, Bank of America and NB Holdings
17 Corp. are collectively referred to as the "Countrywide Defendants."

18 **2. The Issuer Defendants**

19 40. Defendant CFC structured Defendants CWALT, CWMBS, CWABS,
20 and CWHEQ as limited purpose, wholly-owned, finance subsidiaries to facilitate
21 its issuance and sale of the MBS. CWALT, CWMBS, CWABS, and CWHEQ
22 were controlled directly by CFC, including by the appointment of CFC executives
23 as directors and officers of these entities. Revenues flowing from the issuance and
24 sale of MBS issued by CWALT, CWMBS, CWABS and CWHEQ and the Issuing
25 Trusts were passed through to CFC and consolidated into CFC's financial
26 statements. Defendant CFC, therefore, exercised actual day-to-day control over
27 Defendants CWALT, CWMBS, CWABS, and CWHEQ.

28 41. Defendant **CWALT, Inc.** was, at times relevant to this Complaint, a

Delaware corporation and a limited purpose financing subsidiary of CFC. CWALT's principal executive offices were located at 4500 Park Granada, Calabasas, California, the same location as CFC. Defendant CWALT served in the role of the "Depositor" in the securitization of the Issuing Trusts as identified in **SAC Appendix Exhibit A** and was an "Issuer" of the Certificates within the meaning of the Securities Act, 15 U.S.C. § 77b(a)(4), traceable to the following amended Registration Statements it filed with the SEC:

File No.	Amount Registered	Issuer	Date	No. of Offerings in SAC
333-110343	\$19,000,000,000	CWALT, Inc.	January 13, 2004	0
333-117949	\$24,126,942,035	CWALT, Inc.	September 23, 2004	0
333-123167	\$22,731,808,071	CWALT, Inc.	April 21, 2005	2
333-125902	\$45,335,287,290	CWALT, Inc.	July 25, 2005	0
333-131630	\$100,271,785,327	CWALT, Inc.	March 6, 2006	0
333-140962	\$103,095,483,061	CWALT, Inc.	April 24, 2007	0

Defendant CWALT was a named defendant in the Initial Luther Complaint, the Washington State Complaint, the Amended Luther Complaint, the Consolidated Luther Complaint, the Federal Complaint and the FAC. These complaints alleged that CWALT's conduct relating to the creation and sale of MBS violated the Securities Act. The claims asserted in this SAC as they relate to CWALT were tolled under the Countrywide Tolling Decision for the Offerings set forth in **SAC Appendix Exhibits E & F**.

42. Defendant **CWHEQ, Inc.** was, at times relevant to this Complaint, a Delaware corporation and a limited purpose financing subsidiary of CFC. CWHEQ's principal executive offices were located at 4500 Park Granada,

Calabasas, California, the same location as CFC. Defendant CWHEQ served in the role of the “Depositor” in the securitization of the Issuing Trusts as identified in **SAC Appendix Exhibit A** and was an “Issuer” of the Certificates within the meaning of the Securities Act, 15 U.S.C. § 77b(a)(4), traceable to the following amended Registration Statements it filed with the SEC:

File No.	Amount Registered	Issuer	Date	No. of Offerings in SAC
333-121378 ²	\$20,000,000,000	CWHEQ, Inc.	December 17, 2004	0
333-126790	\$30,685,000,000	CWHEQ, Inc.	August 4, 2005	1
333-132375	\$26,572,949,813	CWHEQ, Inc.	April 12, 2006	2
333-139891	\$31,717,192,508	CWHEQ, Inc.	May 22, 2007	0

Defendant CWHEQ was a named defendant in the Washington State Complaint, the Amended Luther Complaint, the Consolidated Luther Complaint, the Federal Complaint and the FAC. These complaints alleged that CWHEQ’s conduct relating to the creation and sale of MBS violated the Securities Act. The claims asserted in this SAC as they relate to CWHEQ were tolled under the Countrywide Tolling Decision for the Offerings set forth in **SAC Appendix Exhibits E & F**.

43. Defendant **CWABS, Inc.** was, at times relevant to this Complaint, a Delaware corporation and a limited purpose financing subsidiary of CFC. CWABS’ principal executive offices were located at 4500 Park Granada, Calabasas, California, the same location as CFC. Defendant CWABS served in the role of the “Depositor” in the securitization of the Issuing Trusts as identified in **SAC Appendix Exhibit A** and was an “Issuer” of the Certificates within the

² There were no Offerings included in the FAC issued pursuant to this Shelf Registration Statement.

meaning of the Securities Act, 15 U.S.C. § 77b(a)(4), traceable to the following amended Registration Statements it filed with the SEC:

File No.	Amount Registered	Issuer	Date	No. of Offerings in SAC
333-118926	\$60,598,485,932	CWABS, Inc.	October 18, 2004	0
333-125164	\$46,598,657,434	CWABS, Inc.	June 10, 2005	2
333-131591	\$34,327,892,523	CWABS, Inc.	February 21, 2006	4
333-135846	\$40,000,000,000	CWABS, Inc.	August 8, 2006	2
333-140960	\$113,336,555,700	CWABS, Inc.	April 24, 2007	0

Defendant CWABS was a named defendant in the Washington State Complaint, the Amended Luther Complaint, the Consolidated Luther Complaint, the Federal Complaint and the FAC. These complaints alleged that CWABS' conduct relating to the creation and sale of MBS violated the Securities Act. The claims asserted in this SAC as they relate to CWABS were tolled under the Countrywide Tolling Decision for the Offerings set forth in **SAC Appendix Exhibits E & F**.

44. Defendant **CWMBS, Inc.** was, at times relevant to this Complaint, a Delaware corporation and a limited purpose financing subsidiary of CFC. CWMBS' principal executive offices were located at 4500 Park Granada, Calabasas, California, the same location as CFC. Defendant CWMBS served in the role of the "Depositor" in the securitization of the Issuing Trusts as identified in **SAC Appendix Exhibit A** and was an "Issuer" of the Certificates within the meaning of the Securities Act, 15 U.S.C. § 77b(a)(4), traceable to the following amended Registration Statements it filed with the SEC:

File No.	Amount Registered	Issuer	Date	No. of Offerings in SAC
333-100418	\$14,978,548,884	CWMBS, Inc.	October 28, 2002	0
333-121249	\$20,863,464,518	CWMBS, Inc.	February 8, 2005	0
333-125963	\$40,742,304,251	CWMBS, Inc.	July 25, 2005	0
333-131662	\$60,846,662,430	CWMBS, Inc.	March 6, 2006	1
333-140958	\$144,647,113,029	CWMBS, Inc.	April 24, 2007	0

Defendant CWMBS was a named defendant in the Washington State Complaint, the Amended Luther Complaint, the Consolidated Luther Complaint, the Federal Complaint and the FAC. These complaints alleged that CWMBS' conduct relating to the creation and sale of MBS violated the Securities Act. The claims asserted in this SAC as they relate to CWMBS were tolled under the Countrywide Tolling Decision for the Offerings set forth in **SAC Appendix Exhibits E & F**.

45. CWALT, CWMBS, CWABS and CWHEQ are collectively referred to herein as the "Issuer Defendants."

3. The Underwriter Defendants

46. As set forth above, Defendant CSC is an affiliate of CFC, and acted as an underwriter for the Certificates identified in **SAC Appendix Exhibit B** within the meaning of the Securities Act, 15 U.S.C. § 77b(a)(11), and drafted and disseminated the Prospectus Supplements pursuant to which the MBS were sold to Plaintiffs. As set forth above, Defendant CSC now operates as Bank of America. Defendant CSC, was a named defendant in the Initial Luther Complaint, the Washington State Complaint, the Amended Luther Complaint, the Consolidated Luther Complaint, the Federal Complaint and the FAC. These complaints alleged that CSC's conduct relating to the creation and sale of MBS violated the Securities Act. The claims asserted in this SAC as they relate to CSC were tolled under the

1 Countrywide Tolling Decision for the Offerings set forth in **SAC Appendix**
2 **Exhibits E & F.**

3 47. Defendant **Deutsche Bank Securities Inc.** ("Deutsche Bank") acted
4 as an underwriter for the Certificates identified in **SAC Appendix Exhibit B**
5 within the meaning of the Securities Act, 15 U.S.C. § 77b(a)(11), and drafted and
6 disseminated the Prospectus Supplements pursuant to which the MBS were sold to
7 Plaintiffs. Defendant Deutsche Bank was a named defendant in the Initial Luther
8 Complaint, the Washington State Complaint, the Amended Luther Complaint, the
9 Consolidated Luther Complaint, the Federal Complaint and the FAC. These
10 complaints alleged that Deutsche Bank's conduct relating to the creation and sale
11 of MBS violated the Securities Act. The claims asserted in this SAC as they relate
12 to Deutsche Bank were tolled under the Countrywide Tolling Decision for the
13 Offerings set forth in **SAC Appendix Exhibits E & F.**

14 48. Defendant **UBS Securities LLC** ("UBS") acted as an underwriter for
15 the MBS identified in **SAC Appendix Exhibit B** within the meaning of the
16 Securities Act, 15 U.S.C. § 77b(a)(11), and drafted and disseminated the
17 Prospectus Supplements pursuant to which the MBS were sold to Plaintiffs.
18 Defendant UBS was a named defendant in the Initial Luther Complaint, the
19 Washington State Complaint, the Amended Luther Complaint, the Consolidated
20 Luther Complaint, the Federal Complaint and the FAC. These complaints alleged
21 that UBS' conduct relating to the creation and sale of MBS violated the Securities
22 Act. The claims asserted in this SAC as they relate to UBS were tolled under the
23 Countrywide Tolling Decision for the Offerings set forth in **SAC Appendix**
24 **Exhibits E & F.**

25 49. Defendant **Morgan Stanley & Co., Inc.** ("Morgan Stanley") acted as
26 an underwriter for the Certificates identified in **SAC Appendix Exhibit B** within
27 the meaning of the Securities Act, 15 U.S.C. § 77b(a)(11), and drafted and
28 disseminated the Prospectus Supplements pursuant to which the MBS were sold to

1 Plaintiffs. Defendant Morgan Stanley was a named defendant in the Initial Luther
2 Complaint, the Washington State Complaint, the Amended Luther Complaint, the
3 Consolidated Luther Complaint, the Federal Complaint and the FAC. These
4 complaints alleged that Morgan Stanley's conduct relating to the creation and sale
5 of MBS violated the Securities Act. The claims asserted in this SAC as they relate
6 to Morgan Stanley were tolled under the Countrywide Tolling Decision for the
7 Offerings set forth in **SAC Appendix Exhibits E & F.**

8 50. Defendant **Goldman, Sachs & Co.** ("Goldman Sachs") acted as an
9 underwriter for the Certificates identified in **SAC Appendix Ex. B** within the
10 meaning of the Securities Act, 15 U.S.C. § 77b(a)(11), and drafted and
11 disseminated the Prospectus Supplements pursuant to which the MBS were sold to
12 Plaintiffs. Defendant Goldman Sachs was a named defendant in the Initial Luther
13 Complaint, the Washington State Complaint, the Amended Luther Complaint, the
14 Consolidated Luther Complaint, the Federal Complaint and the FAC. These
15 complaints alleged that Goldman Sachs' conduct relating to the creation and sale
16 of MBS violated the Securities Act. The claims asserted in this SAC as they relate
17 to Goldman Sachs were tolled under the Countrywide Tolling Decision for the
18 Offerings set forth in **SAC Appendix Exhibits E & F.**

19 51. Defendant **RBS Securities Inc. f/k/a RBS Greenwich Capital d/b/a**
20 **Greenwich Capital Markets, Inc.** ("RBS") acted as an underwriter for the
21 Certificates identified in **SAC Appendix Exhibit B** within the meaning of the
22 Securities Act, 15 U.S.C. § 77b(a)(11), and drafted and disseminated the
23 Prospectus Supplements pursuant to which the MBS were sold to Plaintiffs.
24 Defendant RBS was a named defendant in the Initial Luther Complaint, the
25 Washington State Complaint, the Amended Luther Complaint, the Consolidated
26 Luther Complaint, the Federal Complaint and the FAC. These complaints alleged
27 that RBS' conduct relating to the creation and sale of MBS violated the Securities
28 Act. The claims asserted in this SAC as they relate to RBS were tolled under the

1 Countrywide Tolling Decision for the Offerings set forth in **SAC Appendix**
2 **Exhibits E & F.**

3 52. Defendant **Barclays Capital, Inc.** ("Barclays") acted as an
4 underwriter for the Certificates identified in **SAC Appendix Exhibit B** within the
5 meaning of the Securities Act, 15 U.S.C. § 77b(a)(11), and drafted and
6 disseminated the Prospectus Supplements pursuant to which the MBS were sold to
7 Plaintiffs. Defendant Barclays was a named defendant in the Initial Luther
8 Complaint, the Washington State Complaint, the Amended Luther Complaint, the
9 Consolidated Luther Complaint, the Federal Complaint and the FAC. These
10 complaints alleged that Barclays' conduct relating to the creation and sale of MBS
11 violated the Securities Act. The claims asserted in this SAC as they relate to
12 Barclays were tolled under the Countrywide Tolling Decision for the Offerings set
13 forth in **SAC Appendix Exhibits E & F.**

14 53. Defendant **HSBC Securities (USA) Inc.** ("HSBC") acted as an
15 underwriter for the Certificates identified in **SAC Appendix Exhibit B** within the
16 meaning of the Securities Act, 15 U.S.C. § 77b(a)(11), and drafted and
17 disseminated the Prospectus Supplements pursuant to which the MBS were sold to
18 Plaintiffs. Defendant HSBC was a named defendant in the Washington State
19 Complaint, the Amended Luther Complaint, the Consolidated Luther Complaint,
20 the Federal Complaint and the FAC. These complaints alleged that HSBC's
21 conduct relating to the creation and sale of MBS violated the Securities Act. The
22 claims asserted in this SAC as they relate to HSBC were tolled under the
23 Countrywide Tolling Decision for the Offerings set forth in **SAC Appendix**
24 **Exhibits E & F.**

25 54. Defendants CSC, Deutsche Bank, UBS, Morgan Stanley, Goldman
26 Sachs, RBS, Barclays and HSBC are referred to herein as the "Underwriter
27 Defendants." "Underwriter Defendants" also includes Defendant Bank of America
28 as successor in interest as set forth above. Furthermore, Defendants CSC and UBS

are referred to herein at times as the “**Section 12 Underwriter Defendants.**”

4. The Individual Defendants

55. Defendant **Stanford L. Kurland** (“Kurland”) was, at relevant times, the Chief Executive Officer (“CEO”), President and Chairman of the Board of Directors for CWALT, CWMBS, CWABS and CWHEQ. Defendant Kurland signed all seven (7) Shelf Registration Statements at issue herein. Defendant Kurland was concurrently the Executive Vice President and Chief Operating Officer (“COO”) of Defendant CFC. Defendant Kurland was a named defendant in the Initial Luther Complaint, the Washington State Complaint, the Amended Luther Complaint, the Consolidated Luther Complaint, the Federal Complaint and the FAC. These complaints alleged that Kurland’s conduct relating to the creation and sale of MBS violated the Securities Act. The claims asserted in this SAC as they relate to Kurland were tolled under the Countrywide Tolling Decision for the Offerings set forth in **SAC Appendix Exhibits E & F.**

56. Defendant **David A. Spector** (“Spector”) was, at relevant times, Vice President and a member of the Board of Directors for CWALT, CWMBS, CWABS and CWHEQ. Defendant Spector signed all seven (7) Shelf Registration Statements at issue herein. Defendant Spector was concurrently the Senior Managing Director of Secondary Marketing of Defendant CFC. Defendant Spector was a named defendant in the Initial Luther Complaint, the Washington State Complaint, the Amended Luther Complaint, the Consolidated Luther Complaint, the Federal Complaint and the FAC. These complaints alleged that Spector’s conduct relating to the creation and sale of MBS violated the Securities Act. The claims asserted in this SAC as they relate to Spector were tolled under the Countrywide Tolling Decision for the Offerings set forth in **SAC Appendix Exhibits E & F.**

57. Defendant **Eric P. Sieracki** (“Sieracki”) was, at relevant times, the Executive Vice President, CFO, Treasurer and member of the Board of Directors

1 for CWALT, CWMBBS, CWABS and CWHEQ. Defendant Sieracki signed all
2 seven (7) Shelf Registration Statements at issue herein. Defendant Sieracki was
3 concurrently the Executive Vice President and CFO of Defendant CFC. Defendant
4 Sieracki was a named defendant in the Initial Luther Complaint, the Washington
5 State Complaint, the Amended Luther Complaint, the Consolidated Luther
6 Complaint, the Federal Complaint and the FAC. These complaints alleged that
7 Sieracki's conduct relating to the creation and sale of MBS violated the Securities
8 Act. The claims asserted in this SAC as they relate to Sieracki were tolled under
9 the Countrywide Tolling Decision for the Offerings set forth in **SAC Appendix**
10 **Exhibits E & F.**

11 58. Defendants Kurland, Spector and Sieracki, are collectively referred to
12 hereinafter as the "Individual Defendants."

13 **5. David A. Sambol**

14 59. Defendant David A. Sambol ("Sambol") was, at relevant times, the
15 President and COO of Defendant CFC. Defendant Sambol was a control person of
16 the Countrywide Defendants and the Issuing Defendants. . Defendant Sambol was
17 a named defendant in the Washington State Complaint, the Amended Luther
18 Complaint, the Consolidated Luther Complaint, the Federal Complaint and the
19 FAC. These complaints alleged that Sambol's role relating to the creation and sale
20 of MBS violated the Securities Act. The claims asserted in this SAC as they relate
21 to Sambol were tolled under the Countrywide Tolling Decision for the Offerings
22 set forth in **SAC Appendix Exhibits E & F.**

23 **C. The Issuing Trust Non-Parties**

24 The Issuing Trusts were set up by Defendants CWALT, CWMBBS, CWABS
25 and CWHEQ to issue hundreds of billions of dollars worth of Certificates pursuant
26 to the Offering Documents. **Exhibits A and B** of the SAC Appendix, annexed
27 hereto, identify (1) each Issuing Trust, (2) the stated value of the Certificates it
28 issued, (3) the Registration Statements and Prospectus Supplements pursuant to

1 which the Certificates were issued and sold, and (4) the identities of the
2 Underwriters, Sponsor/Seller, and Depositor/Issuer for each issuance.

3 **V. TOLLING OF THE STATUTE OF LIMITATIONS**

4 **A. Defendant CWALT Offerings**

5 60. Defendant CWALT issued \$163,499,734,519.00 of Countrywide
6 MBS in 226 separate Offerings between January 2005 and December 2007
7 pursuant to six Shelf Registration Statements, Original Basic Prospectuses and
8 later-filed Prospectus Supplements as set forth above in ¶41 and in the FAC at ¶34.
9 The Luther Consolidated Complaint, the Federal Complaint and the FAC all
10 included claims on behalf of 226 CWALT Offerings issued between January 2005
11 and December 2007. *See SAC Appendix Exhibit D.*

12 61. Pursuant to the Court's November 4, 2010 Countrywide Tolling
13 Decision, the allegations set forth herein are limited to those Offerings which the
14 Luther Plaintiffs had standing to pursue while the case was pending in California
15 state court. As a result, Plaintiffs maintain standing to pursue Securities Act claims
16 on two (2) Countrywide MBS Offerings issued pursuant to one (1) CWALT
17 Registration Statement, as set forth in detail below.

18 62. As set forth below, and also in the Certification annexed hereto,
19 OPERS purchased the **CWALT 2005-62 ("2005-62") Certificates, Class 2A1**,
20 pursuant and traceable to the misleading Offering Documents:

21

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWALT 2005-62, Class 2A1	8,446,540.84	\$1.0003	August 4, 2006	Deutsche Bank

22
23
24
25

26 Plaintiff OPERS was named as a representative Plaintiff in the Federal Action for
27 the first time on July 13, 2010 when the FAC was filed. OPERS' Section 11 and
28 15 claims on behalf of all purchasers of the 2005-62 Certificates were tolled in
accordance with the Countrywide Tolling Decision since at least June 12, 2008

when Washington State was named as a plaintiff in the Washington State Complaint. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, Washington State purchased the 2005-62 Certificates and had standing to assert Securities Act claims in connection therewith. Each complaint filed subsequent to the Washington State Complaint, including the Amended Luther Complaint, the Luther Consolidated Complaint, the Federal Complaint and the FAC, included a named plaintiff that had standing to assert the 2005-62 claims. **See SAC Appendix Exhibit E.** As such, Plaintiff OPERS derives tolling from Washington State's standing to pursue those claims.³ **See SAC Appendix Exhibit F.** As of the date of the filing of the Federal Action in January 2010, the value of the Certificates had diminished considerably, and according to OPERS' custodial statements, was priced at \$0.5718, causing OPERS to suffer injury as a result.

63. As set forth below, and also in the Certification annexed hereto, OPERS purchased the **CWALT 2005-72 ("2005-72") Certificates, Class A1**, on the Offering and directly from the underwriter, Defendant UBS, pursuant to the misleading Offering Documents:

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWALT 2005-72, Class A1	16,930,000.00	\$1.0000	November 21, 2005	UBS
CWALT 2005-72, Class A1	13,024,000.00	\$1.0000	December 15, 2005	UBS

Plaintiff OPERS was named as a representative Plaintiff in the Federal Action for the first time on July 13, 2010 when the FAC was filed. OPERS' Sections 12(a)(2) and 15 claims on behalf of all purchasers of the 2005-72 Certificates were tolled in

³ In addition to Washington State's standing to pursue the 2005-62 claims, OPERS relies on the standing of MASH as of the filing of the Amended Luther Complaint. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, MASH purchased the 2005-62 Certificates and had standing to assert Securities Act claims in connection therewith.

1 accordance with the Countrywide Tolling Decision since at least September 9,
2 2008 when PTOE was added as a named plaintiff to the Amended Luther
3 Complaint. According to the Certification filed with its motion for lead plaintiff
4 on April 2, 2010, PTOE purchased the 2005-72 Certificates and had standing to
5 assert Securities Act claims in connection therewith. Each complaint filed
6 subsequent to the Amended Luther Complaint, including the Luther Consolidated
7 Complaint, the Federal Complaint and the FAC, included a named plaintiff that
8 had standing to assert the 2005-72 claims. **See SAC Appendix Exhibit E.** As
9 such, Plaintiff OPERS derives tolling from PTOE's standing to pursue those
10 claims. **See SAC Appendix Exhibit F.** As of the date of the filing of the Federal
11 Action in January 2010, the value of the Certificates had diminished considerably,
12 and according to OPERS' custodial statements, was priced at \$0.6001, causing
13 OPERS to suffer injury as a result.

14 **B. Defendant CWHEQ Offerings**

15 64. Defendant CWHEQ issued \$50,303,553,300.00 of Countrywide MBS
16 in 39 separate Offerings between August 26, 2005 and August 14, 2007 pursuant to
17 four Shelf Registration Statements, Original Basic Prospectuses and later-filed
18 Prospectus Supplements as set forth above in ¶42 and in the FAC at ¶35. All 39
19 Offerings were included for the first time in the Washington State Complaint. **See**
20 **SAC Appendix Exhibit D.**

21 65. Pursuant to the Court's Countrywide Tolling Decision, the allegations
22 set forth herein are limited to those CWHEQ Offerings which the Luther Plaintiffs
23 had standing to pursue while the case was pending in California state court. As a
24 result, Plaintiffs maintain standing to pursue Securities Act claims on three (3)
25 Countrywide MBS Offerings issued pursuant to two (2) CWHEQ Registration
26 Statements, as set forth in detail below.

27 66. As set forth below, and also in the Certification annexed hereto,
28 OPERS purchased the **CWL 2005-H ("2005-H") Certificates, Class 2A**, on the

Offering and directly from the underwriter, Defendant CSC, pursuant to the misleading Offering Documents:

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWL 2005-H, Class 2A	1,200,000	\$1.0000	September 27, 2005	CSC

Plaintiff OPERS was named as a representative Plaintiff in the Federal Action for the first time on July 13, 2010 when the FAC was filed. OPERS' Sections 12(a)(2) and 15 claims on behalf of all purchasers of the 2005-H Certificates were tolled in accordance with the Countrywide Tolling Decision since at least September 9, 2008 when PTOE was added as a named plaintiff to the Amended Luther Complaint. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, PTOE purchased the 2005-H Certificates and had standing to assert Securities Act claims in connection therewith. Each complaint filed subsequent to the Amended Luther Complaint, including the Luther Consolidated Complaint, the Federal Complaint and the FAC, included a named plaintiff that had standing to assert the 2005-H Claims. **See SAC Appendix Exhibit E.** As such, Plaintiff OPERS derives tolling from PTOE's standing to pursue those claims. **See SAC Appendix Exhibit F.** OPERS disposed of the 2005-H Certificates in the open market on October 19, 2007 at a price of \$0.9700, and suffered injury as a result.

67. As set forth below, and also in the Certification annexed hereto, IPERS purchased the **CWL 2006-S3 ("2006-S3") Certificates, Class A2**, on the Offering and directly from the Underwriter, Defendant CSC, pursuant to the misleading Offering Documents:

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWL 2006-S3, Class A2	1,999,956.46	\$1.0000	June 16, 2006	CSC

Lead Plaintiff IPERS was named as a representative Plaintiff in the Federal Action

for the first time on July 13, 2010, when the FAC was filed. IPERS' Sections 11, 12(a)(2) and 15 claims on behalf of all purchasers of the 2006-S3 Certificates were tolled in accordance with the Countrywide Tolling Decision since at least June 12, 2008 – the date the Washington State Complaint was filed. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, Washington State purchased the 2006-S3 Certificates and had standing to assert Securities Act claims in connection therewith. Each complaint filed subsequent to the Washington State Complaint, including the Amended Luther Complaint, the Luther Consolidated Complaint, the Federal Complaint and the FAC, included a named plaintiff that had standing to assert the 2006-S3 claims. *See SAC Appendix Exhibit E.* As such, IPERS derives tolling from Washington State's standing to pursue those claims.⁴ *See SAC Appendix Exhibit F.* As of the date of the filing of the Federal Action in January 2010, the value of the Certificates had diminished considerably, and according to IPERS' custodial statements, was priced at \$0.6300, causing IPERS to suffer injury as a result.

68. As set forth below, and also in the Certification annexed hereto, IPERS purchased the **CWL 2006-S9 ("2006-S9") Certificates, Class A2**, on the Offering and directly from the Underwriter, Defendant CSC, pursuant to the misleading Offering Documents:

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWL 2006-S9, Class A2	1,845,000.00	\$1.0000	December 14, 2006	CSC

Lead Plaintiff IPERS was named as a representative Plaintiff in the Federal Action for the first time on July 13, 2010 when the FAC was filed. IPERS' Sections 11,

⁴ In addition to Washington State's standing to pursue the 2006-S3 claims, IPERS relies on the standing of Vermont as of the filing of the Amended Luther Complaint. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, Vermont purchased the 2006-S3 Certificates and had standing to assert Securities Act claims in connection therewith.

12(a)(2) and 15 claims on behalf of all purchasers of the 2006-S9 Certificates were tolled in accordance with the Countrywide Tolling Decision since at least June 12, 2008 – the date the Washington State Complaint was filed. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, Washington State purchased the 2006-S9 Certificates and had standing to assert Securities Act claims in connection therewith. Each complaint filed subsequent to the Washington State Complaint, including the Amended Luther Complaint, the Luther Consolidated Complaint, the Federal Complaint and the FAC, included a named plaintiff that had standing to assert the 2006-S9 claims. *See SAC Appendix Exhibit E.* As such, IPERS derives tolling from Washington State’s standing to pursue those claims.⁵ *See SAC Appendix Exhibit F.* As of the date of the filing of the Federal Action in January 2010, the value of the Certificates had diminished considerably, and according to IPERS’ custodial statements, was priced at \$0.6318, causing IPERS to suffer injury as a result.

C. Defendant CWABS Offerings

69. Defendant CWABS issued \$82,129,061,400.00 of Countrywide MBS in 76 separate Offerings between June 2005 and October 2007 pursuant to four Shelf Registration Statements, Original Basic Prospectuses and later-filed Prospectus Supplements as set forth above in ¶43 and in the FAC at ¶36. All 76 Offerings were included, for the first time, in the Washington State Complaint and thereafter included in the Luther Amended Complaint, Consolidated Luther Complaint, Federal Complaint and FAC. *See SAC Appendix Exhibit D.*

70. Pursuant to the Court’s Countrywide Tolling Decision, the allegations set forth herein are limited to those CWABS Offerings which the Luther Plaintiffs had standing to pursue while the case was pending in California state court. As a

⁵ In addition to Washington State’s standing to pursue the 2006-S9 claims, IPERS relies on the standing of Vermont as of the filing of the Amended Luther Complaint. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, Vermont purchased the 2006-S9 Certificates and had standing to assert Securities Act claims in connection therewith.

1 result, Plaintiffs maintain standing to pursue Securities Act claims on eight (8)
2 Countrywide MBS Offerings issued pursuant to three (3) CWABS Registration
3 Statements, as set forth in detail below.

4 71. As set forth below, and also in the Certification annexed hereto,
5 GBPHB purchased the **CWL 2005-11 ("2005-11") Certificates, Class AF3**, on
6 the Offering and directly from the Underwriter, Defendant CSC, pursuant to the
7 misleading Offering Documents:

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWL 2005- 11, Class AF3	1,000,000.00	\$1.0000	September 12, 2005	CSC

11 Plaintiff GBPHB was named as a representative Plaintiff in the Federal Action for
12 the first time on July 13, 2010 when the FAC was filed. GBPHB's Sections
13 12(a)(2) and 15 claims on behalf of all purchasers of the 2005-11 Certificates were
14 tolled in accordance with the Countrywide Tolling Decision since at least
15 September 9, 2008 when PTOE was added as a named plaintiff to the Amended
16 Luther Complaint. According to the Certification filed with its motion for lead
17 plaintiff on April 2, 2010, PTOE purchased the 2005-11 Certificates and had
18 standing to assert Securities Act claims in connection therewith. Each complaint
19 filed subsequent to the Amended Luther Complaint, including the Luther
20 Consolidated Complaint, the Federal Complaint and the FAC, included a named
21 plaintiff that had standing to assert the 2005-11 claims. **See SAC Appendix**
22 **Exhibit E.** As such, Plaintiff GBPHB derives tolling from PTOE's standing to
23 pursue those claims. **See SAC Appendix Exhibit F.** GBPHB disposed of the
24 2005-11 Certificates in the open market on September 28, 2009 at a price of
25 \$0.7500, and suffered injury as a result.

26 72. As set forth below, and also in the Certification annexed hereto,
27 OCERS purchased the **CWHL 2005-HYB9 ("2005-HYB9") Certificates, Class**
28 **3A2A**, on the Offering and directly from the Underwriter, Defendant CSC,

pursuant to the misleading Offering Documents:

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWHL 2005-HYB9, Class 3A2A	400,000.00	\$0.9972	November 28, 2005	CSC

73. Plaintiff OCERS was named as the Lead Plaintiff in the Federal Action for the first time on July 13, 2010 when the FAC was filed. OCERS' Section 12(a)(2) and Section 15 claims on behalf of all purchasers of the 2005-HYB9 Certificates were tolled in accordance with the Countrywide Tolling Decision since at least October 16, 2008 when Maine was added as a named plaintiff to the Luther Consolidated Complaint. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, Maine purchased the 2005-HYB9 Certificates and had standing to assert Securities Act claims in connection therewith. Each complaint filed subsequent to the Luther Consolidated Complaint, including the Federal Complaint and the FAC, included a named plaintiff that had standing to assert the 2005-HYB9 claims. *See SAC Appendix Exhibit E.* As such, Plaintiff OCERS derives tolling from Maine's standing to pursue those claims. *See SAC Appendix Exhibit F.* As of the date of the filing of the Federal Action in January 2010, the value of the Certificates had diminished considerably, and according to OCERS' custodial statements, was priced at \$0.6772, causing OCERS to suffer injury as a result.

74. As set forth below, and also in the Certification annexed hereto, GBPHB purchased the **CWL 2006-3 ("2006-3") Certificates, Class 2A2** pursuant and traceable to the misleading Offering Documents, and **Class M2** on the Offering and directly from the Underwriter, Defendant CSC, pursuant to the misleading Offering Documents:

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWL 2006-3, Class 2A2	1,030,000.00	\$0.9938	July 23, 2007	CSC
CWL 2006-3, Class M2	2,500,000.00	\$1.0000	February 16, 2006	CSC

Plaintiff GBPHB was named as a representative Plaintiff in the Federal Action for the first time on July 13, 2010 when the FAC was filed. GBPHB's Sections 11, 12(a)(2) and 15 claims on behalf of all purchasers of the 2006-3 Certificates were tolled in accordance with the Countrywide Tolling Decision since at least October 16, 2008 when Maine was added as a named plaintiff to the Luther Consolidated Complaint. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, Maine purchased the 2006-3 Certificates and had standing to assert Securities Act claims in connection therewith. Each complaint filed subsequent to the Luther Consolidated Complaint, including the Federal Complaint and the FAC, included a named plaintiff that had standing to assert the 2006-3 claims. **See SAC Appendix Exhibit E.** As such, Plaintiff GBPHB derives tolling from Maine's standing to pursue those claims. **See SAC Appendix Exhibit F.** As of the date of the filing of the Federal Action in January 2010, the values of the Class 2A2 and Class M2 Certificates had diminished considerably, and according to GBPHB's custodial statements, were priced at \$0.8216 and \$0.0383, respectively, causing GBPHB to suffer injury as a result.

75. As set forth below, and also in the Certification annexed hereto, GBPHB purchased the **CWL 2006-6 ("2006-6") Certificates, Class 2A2** pursuant and traceable to the misleading Offering Documents:

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWL 2006-6, Class 2A2	1,290,000.00	\$0.9938	July 23, 2007	CSC

Plaintiff GBPHB was named as a representative Plaintiff in the Federal Action for the first time on July 13, 2010 when the FAC was filed. GBPHB's Sections 11 and

15 claims on behalf of all purchasers of the 2006-6 Certificates were tolled in accordance with the Countrywide Tolling Decision since at least October 16, 2008 when Maine was added as a named plaintiff to the Luther Consolidated Complaint. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, Maine purchased the 2006-6 Certificates and had standing to assert Securities Act claims in connection therewith. Each complaint filed subsequent to the Luther Consolidated Complaint, including the Federal Complaint and the FAC, included a named plaintiff that had standing to assert the 2006-6 claims. *See SAC Appendix Exhibit E.* As such, Plaintiff GBPHB derives tolling from Maine's standing to pursue those claims. *See SAC Appendix Exhibit F.* As of the date of the filing of the Federal Action in January 2010, the value of the Certificates had diminished considerably, and according to GBPHB's custodial statements, was priced at \$0.7697, causing GBPHB to suffer injury as a result.

76. As set forth below, and also in the Certification annexed hereto, GBPHB purchased the **CWL 2006-9 ("2006-9") Certificates, Class 1AF3 and Class 1AF6** pursuant and traceable to the misleading Offering Documents:

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWL 2006-9, Class 1AF3	1,000,000.00	\$1.0048	April 27, 2007	BOAS
CWL 2006-9, Class 1AF6	500,000.00	\$1.0150	April 5, 2007	JPMSI

Plaintiff GBPHB was named as a representative Plaintiff in the Federal Action for the first time on July 13, 2010 when the FAC was filed. GBPHB's Sections 11 and 15 claims on behalf of all purchasers of the 2006-9 Certificates were tolled in accordance with the Countrywide Tolling Decision since at least September 9, 2008 when Vermont was added as an additional named plaintiff to the Amended Luther Complaint. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, Vermont purchased the 2006-9 Certificates and had standing to assert Securities Act claims in connection therewith. Each complaint

1 filed subsequent to the Amended Luther Complaint, including the Luther
2 Consolidated Complaint, the Federal Complaint and the FAC, included a named
3 plaintiff that had standing to assert the 2006-9 claims. **See SAC Appendix**
4 **Exhibit E.** As such, Plaintiff GBPHB derives tolling from Vermont's standing to
5 pursue those claims. **See SAC Appendix Exhibit F.** GBPHB disposed of the
6 2006-9 Class 1AF3 Certificates in the open market on April 15, 2009 at a price of
7 \$0.3075, and suffered injury as a result. Furthermore, GBPHB disposed of the
8 2006-9 Class 1AF6 Certificates in the open market on March 27, 2009 at a price of
9 \$0.3300, and suffered injury as a result.

10 77. As set forth below, and also in the Certification annexed hereto,
11 GBPHB purchased the **CWL 2006-11 ("2006-11") Certificates, Class 1AF3 and**
12 **Class 1AF4** pursuant and traceable to the misleading Offering Documents:

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWL 2006- 11, Class 1AF3	595,000.00	\$0.9900	September 14, 2007	BOAS
CWL 2006- 11, Class 1AF4	1,000,000.00	\$1.0264	September 28, 2006	Stifel Nicolaus

18 Plaintiff GBPHB was named as a representative Plaintiff in the Federal Action for
19 the first time on July 13, 2010 when the FAC was filed. GBPHB's Sections 11 and
20 15 claims on behalf of all purchasers of the 2006-11 Certificates were tolled in
21 accordance with the Countrywide Tolling Decision since at least June 12, 2008
22 when Washington State was named as a plaintiff in the Washington State
23 Complaint. According to the Certification filed with its motion for lead plaintiff
24 on April 2, 2010, Washington State purchased the 2006-11 Certificates and had
25 standing to assert Securities Act claims in connection therewith. Each complaint
26 filed subsequent to the Washington State Complaint, including the Amended
27 Luther Complaint, the Luther Consolidated Complaint, the Federal Complaint and
28 the FAC, included a named plaintiff that had standing to assert the 2006-11 claims.

See SAC Appendix Exhibit E. As such, Plaintiff GBPHB derives tolling from Washington State's standing to pursue those claims.⁶ **See SAC Appendix Exhibit F.** GBPHB disposed of the 2006-11 Class 1AF3 and 1AF4 Certificates in the open market on April 23, 2009 at prices of \$0.3200 and \$0.2244, respectively, and suffered injury as a result.

78. As set forth below, and also in the Certification annexed hereto, GBPHB purchased the **CWL 2006-15 ("2006-15") Certificates, Class A1** on the Offering and directly from the Underwriter, Defendant CSC, pursuant to the misleading Offering Documents, and **Class A6** pursuant and traceable to the misleading Offering Documents:

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWL 2006-15, Class A1	1,400,000.00	\$1.0000	August 23, 2006	CSC
CWL 2006-15, Class A1	224,912.98	\$0.9964	October 4, 2007	JPMSI
CWL 2006-15, Class A6	350,000.00	\$1.0086	January 3, 2007	BOAS

Plaintiff GBPHB was named as a representative Plaintiff in the Federal Action for the first time on July 13, 2010 when the FAC was filed. GBPHB's Sections 11, 12(a)(2) and 15 claims on behalf of all purchasers of the 2006-15 Certificates were tolled in accordance with the Countrywide Tolling Decision since at least June 12, 2008 when Washington State was named as a plaintiff in the Washington State Complaint. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, Washington State purchased the 2006-15 Certificates and had standing to assert Securities Act claims in connection therewith. Each complaint filed subsequent to the Washington State Complaint, including the Amended

⁶ In addition to Washington State's standing to pursue the 2006-11 claims, GBPHB relies on the standing of Vermont as of the filing of the Amended Luther Complaint. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, Vermont purchased the 2006-11 Certificates and had standing to assert Securities Act claims in connection therewith.

Luther Complaint, the Luther Consolidated Complaint, the Federal Complaint and the FAC, included a named plaintiff that had standing to assert the 2006-15 claims. **See SAC Appendix Exhibit E.** As such, Plaintiff GBPHB derives tolling from Washington State's standing to pursue those claims.⁷ **See SAC Appendix Exhibit F.** As of the date of the filing of the Federal Action in January 2010, the value of the Class A1 Certificates had diminished considerably, and according to GBPHB's custodial statements, was priced at \$0.9698, causing GBPHB to suffer injury as a result. GBPHB disposed of the 2006-15 Class A6 Certificates in the open market on April 8, 2009 at a price of \$0.4113, and suffered injury as a result.

79. As set forth below, and also in the Certification annexed hereto, GBPHB purchased the **CWL 2006-24 ("2006-24") Certificates, Class 2A1** pursuant and traceable to the misleading Offering Documents:

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWL 2006-24, Class 2A1	385,809.66	\$0.9927	October 12, 2007	Morgan Stanley

80. Plaintiff GBPHB was named as a representative Plaintiff in the Federal Action for the first time on July 13, 2010 when the FAC was filed. GBPHB's Sections 11 and 15 claims on behalf of all purchasers of the 2006-24 Certificates were tolled in accordance with the Countrywide Tolling Decision since at least September 9, 2008 when Vermont was added as an additional named plaintiff to the Amended Luther Complaint. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, Vermont purchased the 2006-24 Certificates and had standing to assert Securities Act claims in connection therewith. Each complaint filed subsequent to the Amended Luther Complaint, including the Luther Consolidated Complaint, the Federal Complaint and the FAC,

⁷ In addition to Washington State's standing to pursue the 2006-15 claims, GBPHB relies on the standing of Vermont as of the filing of the Amended Luther Complaint. According to the Certification filed with its motion for lead plaintiff on April 2, 2010, Vermont purchased the 2006-15 Certificates and had standing to assert Securities Act claims in connection therewith.

1 included a named plaintiff that had standing to assert the 2006-24 claims. *See*
2 **SAC Appendix Exhibit E.** As such, Plaintiff GBPHB derives tolling from
3 Vermont's standing to pursue those claims. *See SAC Appendix Exhibit F.* As of
4 the date of the filing of the Federal Action in January 2010, the value of the
5 Certificates had diminished considerably, and according to GBPHB's custodial
6 statements, was priced at \$0.9428, causing GBPHB to suffer injury as a result.

7 **D. Defendant CWMBS Offerings**

8 81. Defendant CWMBS issued \$56,178,680,394 of Countrywide MBS in
9 87 separate Offerings between June 2005 and October 2007 pursuant to five Shelf
10 Registration Statements, Original Basic Prospectuses and later-filed Prospectus
11 Supplements as set forth above in ¶44 herein and in the FAC at ¶37. All 87
12 Offerings were included, for the first time, in the Washington State Complaint and
13 thereafter included in the Luther Amended Complaint, Consolidated Luther
14 Complaint, Federal Complaint and FAC. *See SAC Appendix Exhibit D.*

15 82. Pursuant to the Court's Countrywide Tolling Decision, the allegations
16 set forth herein are limited to those CWMBS Offerings which the Luther Plaintiffs
17 had standing to pursue while the case was pending in California state court. As a
18 result, Plaintiffs maintain standing to pursue Securities Act claims on one (1)
19 Countrywide MBS Offering issued pursuant to one (1) CWMBS Registration
20 Statement, as set forth in detail below.

21 83. As set forth below, and also in the Certification annexed hereto,
22 OPERS purchased the **CWHL 2006-HYB3 ("2006-HYB3") Certificates, Class**
23 **2A1A**, pursuant and traceable to the misleading Offering Documents:

Certificates Purchased	Units Purchased	Price Per Unit	Date of Purchase(s)	Purchased From
CWHL 2006- HYB3, Class 2A1A	1,076,000.00	\$1.0002	April 27, 2006	CSS
CWHL 2006- HYB3, Class 2A1A	154,493.47	\$0.9919	August 21, 2007	CSC

1 Plaintiff OPERS was named as a representative Plaintiff in the Federal Action for
2 the first time on July 13, 2010 when the FAC was filed. OPERS' Sections 11 and
3 15 claims on behalf of all purchasers of the 2006-HYB3 Certificates were tolled in
4 accordance with the Countrywide Tolling Decision since at least June 12, 2008
5 when Washington State was named as a plaintiff in the Washington State
6 Complaint. According to the Certification filed with its motion for lead plaintiff
7 on April 2, 2010, Washington State purchased the 2006-HYB3 Certificates and had
8 standing to assert Securities Act claims in connection therewith. Each complaint
9 filed subsequent to the Washington State Complaint, including the Amended
10 Luther Complaint, the Luther Consolidated Complaint, the Federal Complaint and
11 the FAC, included a named plaintiff that had standing to assert the 2006-HYB3
12 Claims. **See SAC Appendix Exhibit E.** As such, Plaintiff OPERS derives tolling
13 from Washington State's standing to pursue those claims.⁸ **See SAC Appendix**
14 **Exhibit F.** As of the date of the filing of the Federal Action in January 2010, the
15 value of the Certificates had diminished considerably, and according to OPERS'
16 custodial statements, was priced at \$0.6877, causing OPERS to suffer injury as a
17 result.

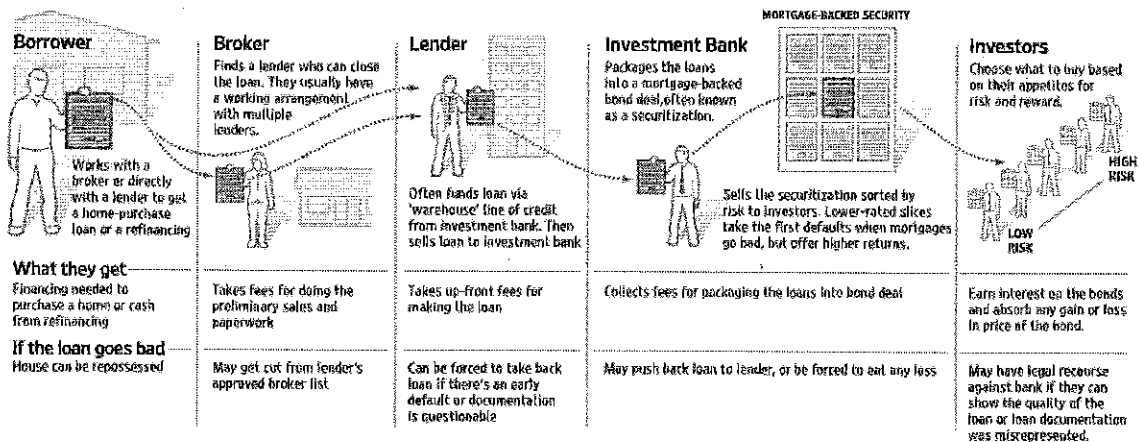
18 VI. BACKGROUND

19 A. Countrywide Was a Leading Issuer and Underwriter of 20 Mortgage-Backed Securities

21
22 84. As illustrated below, a mortgage securitization is where mortgage
23 loans are acquired, pooled together, and then sold to investors, who acquire rights
24 in the income flowing from the mortgage pools.

25
26 ⁸ In addition to Washington State's standing to pursue the 2006-HYB3 claims,
27 OPERS relies on the standing of MASH as of the filing of the Amended Luther
28 Complaint. According to the Certification filed with its motion for lead plaintiff
on April 2, 2010, MASH purchased the 2006-HYB3 Certificates and had standing
to assert Securities Act claims in connection therewith.

Follow the Mortgage What happens to your mortgage after you sign on the dotted line



Source: WSJ Reporting

85. When mortgage borrowers make interest and principal payments, the cash flow is distributed to the holders of MBS certificates in order of priority, based on the specific tranche held. The highest tranche (also referred to as the senior tranche) is first to receive its share of the mortgage proceeds and is also the last to absorb any losses should mortgage borrowers become delinquent or default on their mortgages. Because the lower tranches are designed to provide a cushion, diminished cash flows to the lower tranches results in impaired value of the higher tranches, as, among other reasons, there is less certainty of the continued cash flows to the higher tranches.

86. The securitization of loans fundamentally shifts the risk of loss from mortgage loan originators to investors who purchase an interest in the securitized pool of loans. When the originator holds a mortgage through the term of the loan, it profits from the borrower's payment of interest and repayment of principal, but it also bears the risk of loss if the borrower defaults and the property value is not sufficient to repay the loan. As a result, traditionally, the originator was economically vested in establishing the creditworthiness of the borrower and the true value of the underlying property through appraisal before issuing the mortgage loans. In securitizations where the originator immediately sells the loan to an investment bank, it does not have the same economic interest in establishing

1 borrower creditworthiness or a fair appraisal value of the property in the loan
2 origination process.

3 87. In the 1980s and 1990s, securitizations were generally within the
4 domain of Government Sponsored Enterprises (“GSE”), *i.e.*, the Federal National
5 Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage
6 Corporation (“Freddie Mac”), which would purchase loans from originators.
7 Investors in these early GSE securitizations were provided protections since the
8 underlying loans were originated pursuant to strict underwriting guidelines.

9 88. Between 2001 and 2006, however, there was dramatic growth in non-
10 GSE loan originations and securitizations such that non-GSE securitizations grew
11 330%, becoming a \$1.48 trillion industry.

12 89. The market for adjustable rate mortgages (“ARMs”), including
13 interest-only and negative amortization loans, grew concurrently with the boom in
14 subprime and Alt-A loan originations and securitizations. ARMs increased from
15 \$355 billion in 2001 to \$1.3 trillion in 2006. Mortgage Market Statistical Annual,
16 Vol. 1 (2007), at 4. Such growth coincided with the increase in popularity of so-
17 called “exotic” or non-traditional ARMs which had fixed interest rates for a limited
18 period before “resetting” during the life of the loan to significantly higher
19 adjustable rates. These non-traditional ARMs included “2/28 or 3/27 ARMs”
20 (many with below-market teaser rates for two or three years before conversion to
21 the fully-indexed rate); interest-only ARMs (permitting interest-only payments for
22 a set period of time during which the rate may fluctuate, resulting in negative
23 amortization and rising principal); option payment ARMs (offering up to four
24 payment options, including minimum and interest-only payments, which, if
25 chosen, result in negative amortization and rising principal); and 40-year ARMs (in
26 which payments are calculated based on a 40-year payment term but where the
27 loan terminates in 30 years, resulting in a final balloon payment). Origination of
28 non-traditional ARMs increased 278% between 2004 and 2006 – from \$205 billion

1 to \$775 billion. Mortgage Market Statistical Annual, Vol. 1 (2007), at 6.

2 90. Here, the Certificate collateral was composed of a substantial number
3 of non-traditional adjustable mortgages, interest-only and negative amortization
4 loans. These types of loans presented the greatest potential for “payment shock” to
5 the borrower since they provided for initially small monthly payments based on
6 low fixed rates which then reset thereafter to significantly higher monthly payment
7 amounts based on adjustable interest rates. Although these loans were not
8 traditional, the underwriting guidelines still required the loans to be originated
9 responsibly and in accordance with those guidelines. Yet, Countrywide would
10 routinely provide loans to borrowers who could only afford the short-term “teaser”
11 rates (or, even to those that could not even afford the teaser rates) – not the full
12 payments that would be required after the short-term rates reset. Although these
13 types of loans were designed for high net worth investors who were capable of
14 earning higher returns through investment than in making interest and principal
15 payments upfront, Countrywide routinely sold these loans to unsophisticated
16 borrowers who were unable to make the required payments after the loans reset –
17 and frequently, to those who could not even make the “teaser” payments, leading
18 to early defaults on the loans.

19 **B. Countrywide’s Origination and Securitization Operations**

20 91. CFC set up Defendants CWALT, CWMBS, CWABS, and CWHEQ,
21 the Depositors in this case, as “limited purpose finance entities” solely for the
22 purpose of facilitating the issuance of the Certificates. CHL acted as the servicer
23 of the mortgages and CSC, Countrywide’s underwriting division, along with the
24 other Underwriter Defendants, marketed and sold the securities. Although
25 Defendants CWALT, CWMBS, CWABS, and CWHEQ served as the Depositors
26 for the Issuing Trusts and issued the Registration Statements, this process was
27 directed and controlled by the Countrywide Defendants, the Individual Defendants,
28 and Sambol.

1 92. With respect to the Certificates at issue here, the Registration
2 Statements and each of the Prospectus Supplements contained material
3 misstatements concerning, *inter alia*, the quality of the loans supporting the MBS
4 associated with each trust, including, specifically, statements about (1) the
5 underwriting process and standards by which mortgages held by the Issuing Trusts
6 were originated, and (2) the values of the real estate securing the mortgages pooled
7 in the Issuing Trusts, expressed in part as the average LTV ratios of the underlying
8 mortgages and the appraisal standards by which such real estate values were
9 obtained.

10 93. Each MBS sold to Plaintiffs was sold pursuant to a Registration
11 Statement. The Prospectus Supplements, which were filed at the time that the
12 Certificates were sold to Plaintiffs, incorporated by reference each of the
13 Registration Statements they were issued pursuant to. The Prospectus
14 Supplements contained specific disclosures concerning each Issuing Trust.
15 Nonetheless, in each Prospectus Supplement, as set forth herein, the Issuer
16 Defendants and the Underwriter Defendants made the same representations
17 concerning CHL's standards in originating the mortgages and valuing the
18 properties underlying the Issuing Trusts.

19 94. CWALT filed six Registration Statements with the SEC, *see* SAC
20 **Appendix Exhibit C**, registering mortgage-backed securities backed primarily by:

- 21 a) first lien mortgage loans secured by one- to four-family residential
22 properties;
- 23 b) mortgage loans secured by first liens on small multi-family residential
24 properties, such as residential apartment buildings or projects
25 containing five to fifty residential units;
- 26 c) collections arising from one or more types of the loans described
27 above which are not used to make payments on securities issued by a
28 trust fund, including excess servicing fees and prepayment charges;

1 d) mortgage pass-through securities issued or guaranteed by Ginnie Mae,
2 Fannie Mae, or Freddie Mac; or

3 e) mortgage-backed securities evidencing an interest in, or secured by,
4 loans of the type that would otherwise be eligible to be loans included
5 in a trust fund and issued by entities other than Ginnie Mae, Fannie
6 Mae, or Freddie Mac.

7 95. CWHEQ filed four Registration Statements with the SEC, *see* SAC
8 **Appendix Exhibit C**, registering mortgage-backed securities backed primarily by:

9 a) first lien mortgage loans secured by first and/or subordinate liens on
10 one- to four-family residential properties;

11 b) closed-end and/or revolving home equity loans, secured in whole or in
12 part by first and/or subordinate liens on one- to four-family residential
13 properties; or

14 c) home improvement loans, secured by first or subordinate liens on one-
15 to four-family residential properties or by personal property security
16 interests, and home improvement sales contracts, secured by personal
17 property security interests.

18 96. CWABS filed five Registration Statements with the SEC *see* SAC
19 **Appendix Exhibit C**, registering mortgage-backed securities backed primarily by:

20 a) first lien mortgage loans secured by one- to four-family residential
21 properties;

22 b) mortgage loans secured by first liens on small multi-family residential
23 properties, such as residential apartment buildings or projects
24 containing five to fifty residential units;

25 c) closed-end and/or revolving home equity loans, secured in whole or in
26 part by first and/or subordinate liens on one- to four-family residential
27 properties; or
28

- 1 d) home improvement loans, secured by first or subordinate liens on one-
2 to four-family residential properties or by personal property security
3 interests, and home improvement sales contracts, secured by personal
4 property security interests.

5 97. CWMBS filed five Registration Statements with the SEC, *see* SAC
6 **Appendix Exhibit C**, registering mortgage-backed securities backed primarily by:

- 7 a) first lien mortgage loans secured by one- to four-family residential
8 properties or participations in that type of loan;
9 b) mortgage pass-through securities issued or guaranteed by Ginnie Mae,
10 Fannie Mae, or Freddie Mac; or
11 c) private mortgage-backed securities backed by first lien mortgage
12 loans secured by one- to four-family residential properties or
13 participations in that type of loan.

14 98. Prior to securitization, Countrywide sent the "Loan Level File" to the
15 Rating Agencies to enable them to rate the Certificates. Upon receipt of the "Loan
16 Level File," S&P would run the loan tape through both its "LEVELS" and
17 "SPIRE" Models. Moody's would run the loan tape through its M-3 Model.
18 These models analyzed 50-80 loan characteristics (*e.g.*, FICO score, LTV ratio,
19 property location, etc.), in order to estimate the number of loans that were likely to
20 default and the corresponding amount of the dollar loss resulting from such default.

21 99. As a condition to the issuance of the Certificates, the Rating Agencies
22 had to assign pre-determined ratings to the Certificates. Yet, as detailed herein, the
23 ratings at the time of issuance were vastly higher than they should have been and
24 failed to represent the true value of the Certificates due to incorrect information
25 provided by Countrywide and widespread misrepresentations in the origination
26 process. Accordingly, despite the fact that the Rating Agencies assigned
27 investment-grade ratings, the Certificates were far riskier than other investments
28 with the same ratings.

100. The models purported to calculate the amount of “credit enhancement” required to assign a specific set of Certificates “AAA” ratings. As a result of relatively low levels of credit enhancement being required, as reflected in **SAC Appendix Exhibit G**, 90% of the Certificates were assigned AAA/maximum safety ratings.

101. These ratings, although based on inaccurate assumptions, were critical to institutional investors – public pension funds, banks, insurance companies and mutual funds – whose investment guidelines restrict investments based on a security’s rating.

VII. Evidence of SYstemic Disregard of Stated Loan Origination Guidelines Contained IN Offering documents

A. Exponential Increase in Certificate Default Rates in Months After Issuance No Matter When Offering Occurred Evidences Disregard of Origination Guidelines

102. The defective nature of the mortgage collateral underlying the Certificates is reflected by the recurring pattern of exponential increases in borrower delinquencies in the months after each of the Offerings was commenced.

103. Four months after each of the Offerings was commenced, borrower delinquency and default rates on the underlying mortgage collateral had increased by a staggering 1,816% – from an average of 0.14% to over 2.7% of the mortgage loan balance. By the sixth month after issuance of the Certificates, delinquency and default rates had increased 3,064% to an average of 4.5% of the mortgage loan balance. And shockingly, by 12 months after the Offering date, delinquency and default rates had increased 8,508% from issuance to 12.1% of the mortgage loan balance. Borrower default and delinquency rates in the underlying mortgage collateral have continued to increase.

104. These early payment defaults and delinquency rates are reflective of a systematic disregard for underwriting guidelines. As reported by the Federal

1 Bureau of Investigation ("FBI") in its 2006 and 2007 Mortgage Fraud Reports, a
2 study of three million residential mortgage loans found that between 30% and 70%
3 of early payment defaults were linked to significant misrepresentations in the
4 original loan applications. The study cited by the FBI and conducted by Base
5 Point Analytics found that loans that contained egregious misrepresentations were
6 five times more likely to default in the first six months than loans that did not. The
7 misrepresentations included income inflated by as much as 500%, appraisals that
8 overvalued the property by 50% or more and fictitious employers and falsified tax
9 returns. The 2006 FBI report also cited studies by a leading provider of mortgage
10 insurance, Radian Guaranty Inc., in concluding that the top states for mortgage
11 fraud – including the states where the MBS collateral was principally originated –
12 were also the top states with the highest percentage of early payment defaults.

13 105. As set forth above, it is now apparent that Countrywide mortgage
14 originators routinely encouraged such misstatements in loan applications.
15 Unsurprisingly, this has resulted in dismal performance of the loans. As of the
16 filing of the Amended Luther Complaint in October 2008, borrower delinquency
17 and default rates had risen to an average of approximately 42% of the mortgage
18 loan collateral underlying the Certificates, forcing the Rating Agencies to
19 downgrade substantially all of the Certificates to at or near junk bond status. As of
20 the date of the filing of the complaint in the above-captioned action in January
21 2010, *over 59%* of mortgage collateral was considered to be in some form of
22 delinquency or default, with *over 85%* of the mortgage loans underlying the
23 Offerings issued by Defendant CWALT at issue herein being delinquent or in
24 default.

25 106. Despite assurances by the Defendants in the Offering Documents that
26 the mortgage loans collateralizing the Certificates were originated pursuant to
27 Countrywide's stated guidelines, nothing could have been further from the truth.
28

B. Rating Agencies Collapsed Certificate Ratings to "Junk Bond" Levels Due to Undisclosed "Aggressive Underwriting" Practices

107. The Rating Agencies rated the Certificates pursuant to the following twenty-three (23) level rating system:

		Definition	Moody's	S & P	Fitch
		Investment Grade			
	10.0	US Treasuries	***	***	***
	9.5	Prime, maximum safety	Aaa	AAA	AAA
	9.0	Very high grade/quality	Aa1	AA+	AA+
	8.5	"	Aa2	AA	AA
	8.0	"	Aa3	AA-	AA-
	7.5	Upper medium quality	A1	A+	A+
	7.0	"	A2	A	A
	6.5	"	A3	A-	A-
	6.0	Lower medium grade	Baa1	BBB+	BBB+
	5.5	"	Baa2	BBB	BBB
	5.0	"	Baa3	BBB-	BBB-
Color code	Number	Definition	Moody's	S & P	Fitch
		Speculative grade			
	4.5	Speculative	Ba1	BB+	BB+
	4.0	"	Ba2	BB	BB
	3.5	"	Ba3	BB-	BB-
	3.0	Highly speculative	B1	B+	B+
	2.5	"	B2	B	B
	2.0	"	B3	B-	B-
	1.5	Substantial risk	Caa1	CCC+	CCC+
	1.0	In poor standing	Caa2	CCC	CCC
	0.5	"	Caa3	CCC-	CCC-
	0.0	Extremely speculative	Ca	CC	CC
	0.0	Maybe in or extremely close to default	C	C+,C,C-	C+,C,C-
	0.0	Default		D	D

108. As noted above, the Rating Agencies initially assigned the highest ratings of AAA/maximum safety to 90%, or \$16.03 billion, of the Certificates at issue herein.

109. As of the filing of this Complaint, as set forth directly above, the underlying collateral has largely failed, with **over 60%** of the total mortgage loan balance now severely delinquent, in default, repossessed, in bankruptcy or in foreclosure. This performance was an indication to the Rating Agencies, including

1 S&P and Moody's, of pervasive underwriting failures in the origination of the
2 collateral which ultimately led to widespread and deep downgrades of most of the
3 Certificate classes.

4 110. On or about July 10, 2007, S&P publicly announced it was revising
5 the methodologies used to rate numerous Certificates because the performance of
6 the underlying collateral "called into question" the accuracy of the loan data. This
7 announcement triggered several government investigations which only began
8 reporting their findings in 2008. Specifically, S&P announced that it was revising
9 its methodology assumption to require increased "credit protection" for rated
10 transactions. S&P reiterated that it would also seek in the future to review and
11 minimize the incidence of potential underwriting abuse given "the level of
12 *loosened underwriting* at the time of loan origination, misrepresentation and
13 speculative borrower behavior reported for the 2006 ratings."

14 111. One day later, on July 11, 2007, Moody's announced it was also
15 revising its methodology used to rate the Certificates, and anticipated Certificate
16 downgrades in the future. Moody's did in fact significantly downgrade most of the
17 Certificate classes, noting "aggressive underwriting" used in the origination of the
18 collateral.

19 112. As a result, the Certificates were downgraded as many as 22 levels
20 with, for example, 90%, or \$14.5 billion, of the total \$16.03 billion of Certificates
21 initially rated AAA/maximum safety now having been downgraded from AAA to
22 "Ba1" or below, meaning these Certificates were not only designated "junk
23 bonds," but were assessed to be in danger of "imminent default." Over 93%, or
24 \$16.6 billion, of the Certificate tranches have now been downgraded, with 91%, or
25 \$16.2 billion, of the total Certificates at issue having now been downgraded to
26 speculative "junk" status.

27 113. Countrywide's systematic disregard for its underwriting guidelines led
28 to dramatic downgrades of the Certificates as set forth directly above. Currently,

1 91% (\$14.5 billion) of the \$17.83 billion of Certificates initially rated
2 AAA/maximum safety have been downgraded to speculative “junk” status or
3 below. Delinquency and default rates on the Countrywide loans in the Certificates
4 have risen exponentially by over 41,000% since issuance of the Certificates – from
5 0.14% as of the respective Offering dates to *over 60%* as of May 2010.

6 114. Further, as set forth more fully below, disclosures emerged well after
7 the issuance of the Certificates with respect to the loan originators which further
8 evidenced that they had engaged in underwriting practices which were wholly
9 inconsistent with the guidelines set forth in the Registration Statements and
10 Prospectus Supplements.

11 C. Numerous Government Investigations Reveal the Falsity of the
12 Offering Documents

13 115. Although the poor performance of the MBS alone strongly suggests
14 that Countrywide’s lending practices were far from was disclosed in the Prospectus
15 Supplements, there is substantial additional evidence that also indicates that the
16 statements in the Prospectus Supplements about loan quality and loan underwriting
17 practices were materially inaccurate. Among this evidence are statements by
18 former Countrywide employees, facts which have emerged in ongoing litigation
19 involving the SEC (including a recent judicial opinion dealing with disclosures by
20 Countrywide), facts set out in complaints filed by state attorneys general, facts set
21 out in filings by private litigants and information from press reports and other
22 sources.

23 116. Taken together, these facts indicate that, while the Offering
24 Documents represented that Countrywide’s underwriting of mortgages was
25 designed to ensure the borrower’s ability to repay the mortgage and the adequacy
26 of the collateral supporting the mortgage, in reality Countrywide’s underwriting
27 practices were actually designed to originate as many mortgage loans as possible
28 without regard to the ability of borrowers to afford such mortgages. Indeed,

1 contrary to the representations in the Registration Statements and Prospectus
2 Supplements, it has now been revealed that Countrywide's loan originators
3 systemically disregarded and/or manipulated the income, assets and employment
4 status of borrowers seeking mortgage loans in order to qualify these borrowers for
5 mortgages that were then pooled and used as collateral for the MBS sold to
6 Plaintiffs. In many instances, this was done by inflating borrowers' stated income,
7 or facilitating income inflation by encouraging ineligible borrowers to resort to "no
8 documentation loans" and "stated income loans." In other cases, Countrywide
9 customers were steered to more expensive, higher interest loans, such as subprime
10 and "alternative" mortgages, which they would not likely be able to repay, because
11 making such loans allowed Countrywide to increase the number of attractive
12 mortgages it could sell to the secondary mortgage markets. As set forth below,
13 Countrywide's notorious origination practices were pervasive throughout the
14 United States and throughout the time period during which the Offerings were
15 issued.

16 117. On or about March 10, 2008, the FBI disclosed that it had initiated a
17 probe into Countrywide's mortgage lending practices, including manipulation of
18 the subprime and non-traditional loan markets, knowledge of and disregard for
19 underwriting inaccuracies and misrepresentations, and Countrywide's specific
20 instructions to underwriters not to scrutinize certain types of loans it issued. The
21 next day, *The Wall Street Journal* published an article detailing the FBI
22 investigation of Countrywide's lending practices. According to the sources
23 interviewed by *The Wall Street Journal*, federal investigators were finding that
24 "Countrywide's loan documents often were marked by dubious or erroneous
25 information about its mortgage clients, according to people involved in the matter.
26 The company packaged many of those mortgages into securities and sold them to
27 investors, raising the additional question of whether Countrywide understated the
28 risks such investments carried." Subsequently, on April 2, 2008, a federal

1 bankruptcy judge overseeing the proceedings of more than 300 Countrywide-
2 related bankruptcies ordered a further inquiry into the misconduct, and specifically,
3 the illegal inflation of fees throughout the loan process that had been occurring at
4 Countrywide.

5 118. On June 4, 2009, the SEC filed a complaint against Mozilo,
6 Countrywide's former Chief Executive Officer, and against two Defendants in this
7 case, Sambol and Sieracki (the "SEC Complaint"). The SEC Complaint alleges
8 that the defendants in that case made material false statements in Countrywide's
9 SEC filings and in other forums about the quality of Countrywide's residential
10 mortgage loans and about the underwriting process for those loans. According to
11 the SEC, the underwriting process for Countrywide loans was far less rigorous than
12 what the defendants in that case had stated and, consequently, the quality of
13 Countrywide's loans was much poorer than was indicated by those public
14 statements.

15 119. The basis for the allegations in the SEC Complaint – that
16 Countrywide and its officers substantially overstated the quality of the company's
17 residential mortgage loan underwriting and, as a result, issued mortgage loans of a
18 far worse quality than Countrywide publicly disclosed – are materially similar to
19 the allegations made by Plaintiffs in this case. Although the statements targeted by
20 the SEC were made to Countrywide's shareholders in SEC filings, statements
21 made in Offering Documents for securities that securitized the mortgage collateral
22 were similarly false and misleading to MBS investors.

23 120. The SEC Complaint alleges, among other things:

- 24
- 25 • Countrywide embarked on a strategy of underwriting a
26 higher number of exception loans. The SEC alleges that
27 "[t]he elevated number of exceptions resulted largely
28 from Countrywide's use of exceptions as part of its
matching strategy to introduce new guidelines and
product changes." SEC Complaint, ¶ 29. By February

1 2007, internal risk management “noted that the
2 production divisions continued to advocate for, and
3 operated pursuant to, an approach based upon the
4 matching strategy alone. ... Additionally, [a senior risk
5 management employee warned [Sambol] that, ‘I doubt
6 this approach would play well with regulators, investors,
7 rating agencies etc. *To some, this approach might seem
like we’ve simply ceded our risk standards and balance
sheet to whoever has the most liberal guidelines.*” SEC
Complaint, ¶ 44 (emphasis added).

- 8 • Countrywide’s risk management reported to the credit
9 risk committee on June 28, 2005, that there was
10 “evidence of borrowers misrepresenting their income and
11 occupation on reduced documentation loan applications.”
SEC Complaint, ¶ 37.
- 12 • By June 2006 “both Mozilo and Sambol were aware ...
13 that a significant percentage of borrowers who were
14 taking out stated income loans were engaged in mortgage
15 fraud.” SEC Complaint, ¶ 40. For example, “[o]n June
16 2, 2006, Sambol received an email reporting on the
17 results of a quality control audit at Countrywide Bank
18 that showed that 50% of the stated income loans audited
by the bank showed a variance in income from the
borrowers’ IRS filings of greater than 10%. Of those,
69% had an income variance of greater than 50%.” *Id.*
- 19 • Angelo Mozilo, Countrywide’s CEO, noted in an April
20 13, 2006 email “that he had ‘personally observed a
21 serious lack of compliance within our origination system
22 as it relates to documentation and generally a
23 deterioration in the quality of loans originated versus the
pricing of those loan [sic].” SEC Complaint, ¶ 49.
- 24 • A December 13, 2007 internal Countrywide
25 memorandum reveals, “Countrywide had reviewed
26 limited samples of first- and second-trust-deed mortgages
27 originated by Countrywide Bank during the fourth
28 quarter of 2006 and the first quarter of 2007 in order to
get a sense of the quality of file documentation and
underwriting practices, and to assess compliance with
internal policies and procedures. The review resulted in

1 ... the finding that borrower repayment capacity was not
2 adequately assessed by the bank during the underwriting
3 process for home equity loans. More specifically, debt-
4 to-income (DTI) ratios did not consider the impact of
principal [negative] amortization or any increase in
interest.” SEC Complaint, ¶ 56.

- 5 • A senior risk management employee warned defendant
6 Sambol on May 22, 2005 “of the likelihood of
7 significantly higher default rates in loans made on an
8 exception basis: ‘[t]he main issue is to make sure
9 everyone’s aware that we will see higher default rates.’”
10 SEC Complaint, ¶ 54. According to the SEC Complaint,
11 the senior risk management employee explained to
12 Sambol “that exceptions are generally done at terms more
13 aggressive than our guidelines,’ and continued that
14 ‘[g]iven the expansion in guidelines and the growing
15 likelihood that the real estate market will cool, this seems
16 like an appropriate juncture to revisit our approach to
17 exceptions.’ [The senior risk management employee
18 further] warned [Sambol] that increased defaults would
19 cause repurchase and indemnification requests to rise and
20 the performance of Countrywide-issued MBS to
21 deteriorate.” *Id.*

18 121. On November 3, 2009 U.S. District Judge John Walter denied in their
19 entirety defendants’ motions to dismiss the SEC Complaint, holding, among other
20 things, that the SEC had adequately alleged that defendants in that case had made
21 statements that materially exaggerated the quality of Countrywide’s residential
22 mortgage-backed loans.

23 122. There was apparently no dispute in the SEC litigation that defendants
24 in that case, like Defendants here, had repeatedly made statements asserting that
25 Countrywide’s residential mortgage loans were of high quality. The defendants
26 did not dispute that they had made the statements that the SEC said they had made
27 – many of these statements were in SEC filings that the defendants had
28 indisputably filed or caused to be filed. Defendants did, however, ask the court to
take judicial notice of numerous other SEC filings containing additional

1 information relating to Countrywide's loans, a request that was granted. Notably,
2 defendants used the judicially noticed documents they had brought to the court's
3 attention to "argue that the majority of the misstatements and omissions were not
4 material or misleading as a matter of law in light of Countrywide's extensive
5 disclosures and the context of the alleged misstatements or omissions." *SEC v.*
6 *Mozilo*, CV 09-3994-JFW (MANx), 2009 U.S. Dist. LEXIS 104689, at *25-26
7 (C.D. Cal. Nov. 3, 2009).

8 123. Judge Walter flatly rejected this argument, explaining that "neither
9 Countrywide's disclosures nor a careful review of the context of the statements
10 convince this Court that the alleged omissions or misstatements were immaterial or
11 not misleading as a matter of law. Accordingly, the Court concludes that the SEC
12 on the whole has adequately alleged that Defendants have made false or
13 misleading statements or omissions of material fact." *Id.* at *26.

14 124. In addition, numerous attorneys general have initiated investigations
15 into Countrywide's lending practices and also have alleged that Countrywide
16 systematically departed from the underwriting standards it professed to use to
17 originate residential loans.

18 125. The Illinois Attorney General initiated a lawsuit against Countrywide
19 and Mozilo, contending that the company and its executives sold borrowers costly
20 and defective loans that quickly went into foreclosure. *See People of the State of*
21 *Illinois v. Countrywide Fin. Corp.*, No. 08CH22994 (Cook County Ch. Ct.) (the
22 "First Illinois AG Complaint").

23 126. Additionally, the First Illinois AG Complaint alleges, based on
24 evidence from Countrywide employees whom the Illinois Attorney General
25 interviewed, that Countrywide employees were incentivized to increase the number
26 of loan originations without concern for whether the borrower was able to repay
27 the loan. Countrywide employees did not properly ascertain whether a potential
28 borrower could afford the offered loan, and many of Countrywide's stated income

1 loans were based on inflated estimates of borrowers' income. For example,
2 according to the First Illinois AG Complaint: (1) a Countrywide employee
3 estimated that approximately 90% of all reduced documentation loans sold out of a
4 Chicago office had inflated incomes; and (2) one of Countrywide's mortgage
5 brokers, One Source Mortgage Inc., routinely doubled the amount of the potential
6 borrower's income on stated income mortgage applications. Furthermore, to
7 supplement an employee's judgment as to whether a potential borrower's income
8 was "reasonable," Countrywide required its employees to utilize a website,
9 www.salary.com. Even if the stated salary was outside of the range provided by
10 the website, Countrywide employees could still approve the loan. The Illinois
11 Attorney General alleged that the "reasonableness" test contravened proper
12 underwriting practices.

13 127. As the Illinois Attorney General explained, "[t]his mounting disaster
14 has had an impact on individual homeowners statewide and is having an impact on
15 the global economy." *The New York Times* reported that the complaint, derived
16 from 111,000 pages of Countrywide documents and interviews with former
17 employees, "paints a picture of a lending machine that was more concerned with
18 volume of loans than quality." See Gretchen Morgenson, "Illinois to Sue
19 Countrywide," *N.Y. Times* (June 25, 2008).

20 128. In a second complaint filed on June 29, 2010, the Illinois Attorney
21 General further enumerated the problems with Countrywide's origination practices,
22 including that Countrywide engaged in discriminatory and predatory lending. See
23 *People of the State of Illinois v. Countrywide Fin. Corp.*, No. 10CH27929 (Cook
24 County Ch. Ct.) (the "Second Illinois AG Complaint"). There, the Illinois
25 Attorney General sets forth how CFC incentivized its employees to sell riskier
26 subprime loans with higher spreads, paying its brokers more for those riskier loans
27 than for originating prime loans.

28 129. California's Attorney General also commenced an investigation into

1 Countrywide's lending activities and filed a complaint in the Northwest District of
2 the Superior Court for Los Angeles County, entitled *People of the State of*
3 *California v. Countrywide Fin. Corp.*, No. LC081846 (Los Angeles Super. Ct.)
4 (the "California AG Complaint"). The California AG Complaint also alleged that
5 Countrywide routinely departed from its stated underwriting standards.

6 130. For example, the California AG Complaint alleged that employees
7 were incentivized to make exceptions to underwriting standards and failed to verify
8 borrower documentation and information. According to the California AG
9 Complaint, Countrywide used a system called CLUES (Countrywide Loan
10 Underwriting Expert System), to provide a loan analysis report that indicated
11 whether the loan was within Countrywide's underwriting guidelines. CLUES
12 reports indicating a loan was not originated within the purview of Countrywide's
13 underwriting guidelines often were ignored in order to effectuate the loan.

14 131. Further, consistent with the allegations of the Illinois Attorney
15 General, California Countrywide employees cited in the California AG Complaint
16 also claimed to have utilized the website www.salary.com to purportedly confirm a
17 borrower's stated income. However, according to the California AG Complaint,
18 California employees would know ahead of time the range of salaries that
19 www.salary.com would provide for a particular job and, therefore, know by how
20 much they could overstate a borrower's income. A former California loan officer
21 for Countrywide further explained that its loan officers typically told potential
22 borrowers that "with your credit score of X, for this house, and to make X
23 payment, X is the income that you need to make"; after which the borrower would
24 state that he or she made X amount of income.

25 132. Likewise, the Connecticut Attorney General filed a complaint in
26 Superior Court, Judicial District of Hartford, entitled *State of Connecticut v.*
27 *Countrywide Fin. Corp.*, No. CV08-40390945 (Hartford Super. Ct.), alleging that
28 Countrywide's employees inflated borrowers' incomes in order to qualify them for

1 loans they otherwise would not have received.

2 133. Investigations in other states such as Washington, West Virginia,
3 Indiana and Florida have confirmed many of the allegations in the Illinois,
4 California, and Connecticut complaints.

5 134. Further, the Massachusetts Attorney General set forth details of
6 Underwriter Defendant Morgan Stanley's subprime conduct in a settlement
7 agreement entered on June 24, 2010 in which Morgan Stanley agreed to pay \$102
8 million in compensation to homeowners and the Commonwealth of Massachusetts.
9 Although Morgan Stanley denied all wrongdoing, the Massachusetts Attorney
10 General set out that Morgan Stanley routinely ignored warning reports from
11 Clayton Holdings, Inc. ("Clayton"), a due diligence firm, showing that mortgages
12 originated by another defunct subprime originator, New Century Financial ("New
13 Century"), did not meet their underwriting guidelines. Despite being advised by
14 Clayton of underwriting guideline violations, Morgan Stanley repeatedly
15 purchased and securitized New Century loans that did not have sufficient
16 compensating factors to offset their failure to meet the underwriting guidelines.
17 Widespread government investigations suggest that Morgan Stanley was typical of
18 banks such as the Underwriter Defendants in ignoring warnings from due diligence
19 firms like Clayton.

20 135. On July 24, 2008, *The Los Angeles Times* reported that "three big
21 Southland lenders (are) under federal investigation; Sources say IndyMac,
22 Countrywide and New Century [have been] subpoenaed." *The Los Angeles Times*
23 further reported that officials have begun to investigate the value of mortgage-
24 backed securities:

25
26 A federal grand jury in Los Angeles has begun probing
27 three of the nation's largest subprime mortgage lenders
28 in the clearest sign yet that prosecutors are investigating
whether fraud and other crimes contributed to the
mortgage debacle.

1 ***Grand jury subpoenas have been issued in recent***
2 ***weeks and months to Countrywide Financial Corp.,***
3 New Century Financial Corp. and IndyMac Federal
4 Bank seeking a wide range of information, according to
5 sources with direct knowledge of the subpoenas.

6 Officials have said they are beginning to investigate
7 whether securities investors were defrauded about the
8 value of subprime mortgages they purchased, as well as
9 other possible crimes such as insider trading by
10 corporate officials who sold stock knowing their
11 holdings were about to deflate in value.

12 (emphasis added).

13 136. On October 6, 2008, certain of the Countrywide Defendants settled
14 lawsuits brought by eleven attorneys general. The settlement, valued at ***\$8.4***
15 ***billion***, detailed a program whereby existing loans would be modified:

16 [B]orrowers were placed in the riskiest loans, including
17 adjustable-rate mortgages whose interest rates reset
18 significantly several years after the loans were made.
19 Pay-option mortgages, under which a borrower must
20 pay only a small fraction of the interest and principal,
21 thereby allowing the loan balance to increase, also are
22 included in the modification.

23 **D. Allegations in Numerous Other Civil Lawsuits Show the Falsity of**
24 **the Offering Documents**

25 137. On February 15, 2008, Countrywide shareholders filed a consolidated
26 complaint in the U.S. District Court for the Central District of California alleging
27 derivative claims against the officers and directors of Countrywide, in an action
28 styled *In re Countrywide Fin. Corp. Derivative Litig.*, No. 07-CV-06923-MRP-
(MANx) (C.D. Cal.) (the "Derivative Complaint"). The derivative litigation was
subsequently dismissed because of the plaintiffs' lack of standing

138. The Derivative Complaint cited information obtained from several
confidential sources who were former Countrywide employees who stated that the
vast majority of Countrywide's loans were underwritten in contravention of the

1 company's stated underwriting standards. According to one of the confidential
2 sources in that complaint, a former "Underwriter II" (a Countrywide employment
3 classification) based in a Jacksonville, Florida processing center between June
4 2006 and April 2007, because of a campaign by Countrywide to increase the
5 volume of loan originations, as much as 80% of the loans originated by
6 Countrywide in that office involved significant variations from Countrywide's
7 normal underwriting standards.

8 139. According to another confidential witness cited in the Derivative
9 Complaint, a Senior Underwriter in Roseville, California, from September 2002 to
10 September 2006, Countrywide would regularly label loans as "prime" even if made
11 to unqualified borrowers (including those who had recently gone through a
12 bankruptcy and were still having credit problems). According to that confidential
13 witness, Countrywide's lending practices became riskier in 2006 and Countrywide
14 more lax in enforcing its underwriting policies.

15 140. Another confidential witness cited in the Derivative Complaint, an
16 Executive Vice President of Production Operations and later an Executive Vice
17 President of Process Improvement who worked at Countrywide for 17 years before
18 leaving in October 2005, disclosed that Countrywide created a computer system
19 (or "rules engine") that routed highly risky loans out of the normal loan approval
20 process to a central underwriting group for evaluation. The system was called the
21 Exception Processing System. According to that source, the Exception Processing
22 System identified loans that violated Countrywide's underwriting requirements.
23 However, according to the same source, loans identified by the Exception
24 Processing System as violating underwriting standards were *not* rejected. Rather,
25 Countrywide executives wanted the company's Central Underwriting group to
26 review such loans to evaluate whether these loans should require a higher price
27 (upfront points) or a higher interest rate in light of the violation at issue. Central
28 Underwriting entered information into the Exception Processing System about its

1 decisions to approve such loans and charge additional fees to the borrower.

2 141. Yet another confidential source in the Derivative Complaint, an
3 underwriter from Long Island, New York at Countrywide between March 2000
4 and January 2007, stated that Countrywide extended loans to individuals with
5 increasing debt-to-income ratios. Initially, Countrywide limited debt-to-income
6 ratios to 38%, but this rose to 50%. According to this source, Countrywide branch
7 managers' compensation was tied to loan origination volume and not the quality of
8 the loans. Thus, according to this source, branch managers pushed originators to
9 sell more loans despite the riskiness of these loans. Additional confidential sources
10 in the Derivative Complaint confirmed this.

11 142. Indeed, according to yet another confidential source in the Derivative
12 Complaint, Countrywide simply "didn't turn down loans." Rather, Countrywide
13 "did whatever they had to do to close loans' including making exceptions to
14 underwriting guidelines – everyone was motivated to increase loan volume and
15 'approv[e] things that should not have been approved.'"

16 143. On January 6, 2009, purchasers of Countrywide common shares filed
17 a second amended complaint in the U.S. District Court for the Central District of
18 California, captioned *In re Countrywide Fin. Corp. Sec. Litig.*, No. 07-CV-05295-
19 MRP-(MANx) (C.D. Cal.) (the "Securities Complaint"). Facts set forth in the
20 Securities Complaint confirm major, systematic irregularities in Countrywide's
21 loan origination practices. The Securities Complaint cited information obtained
22 from several confidential sources who were former Countrywide employees who
23 stated that the vast majority of Countrywide's loans were underwritten in
24 contravention of the company's stated underwriting standards. The securities
25 litigation recently settled for \$624 million.

26 144. Among numerous internal Countrywide sources cited in the Securities
27 Complaint, one, a supervising underwriter at Countrywide until mid-2005 who
28 oversaw the company's underwriting operations in several states (the "Supervising

1 Underwriter”), stated that the underwriting guidelines were repeatedly lowered,
2 and “very loose and lax” and designed to help Countrywide make more loans (as
3 opposed to protecting the entity that ended up taking on the credit risk that the
4 borrower would default on the mortgage).

5 145. The Supervising Underwriter further stated that from late 2004,
6 Countrywide’s Structured Loan Desks employed the Exception Processing System
7 in order to obtain approval for loans that were exceptions to and should have been
8 rejected by Countrywide’s underwriting standards. As many as 15% to 20% of the
9 loans generated each day at the Company’s Structured Loan Desks were run
10 through the Exception Processing System and very few were ever rejected.

11 146. The Supervising Underwriter further stated that if a potential borrower
12 applying for a stated income, stated asset (“SISA”) loan provided a bank name,
13 address and account number for asset verification, it was the practice at
14 Countrywide not to verify the bank balance.

15 147. According to another confidential source identified in the Securities
16 Complaint, and confirmed by an April 6, 2008 article in *The New York Times*, even
17 though Countrywide had the right to verify stated income on an application
18 through the Internal Revenue Service (“IRS”) (and this check took less than one
19 day to complete), income was verified with the IRS on only 3%-5% of all loans
20 funded by Countrywide in 2006.

21 148. The Securities Complaint also details that the appraisals obtained by
22 Countrywide underwriters were not independent or accurate. For example, since at
23 least 2005, loan officers from all of Countrywide’s origination divisions were
24 permitted to (i) hire appraisers of their own choosing, (ii) discard appraisals that
25 did not support loan transactions, and (iii) substitute more favorable appraisals by
26 replacement appraisers when necessary to obtain a more favorable LTV ratio so as
27 to qualify the loan for approval. Countrywide loan officers were allowed to lobby
28 appraisers to assign particular values to a property in order to support the closing

1 of a loan.

2 149. Further, according to allegations made by Capitol West Appraisals
3 LLC ("Capitol West") a real estate appraisal company cited in the Securities
4 Complaint, "Countrywide engaged in a pattern and practice of pressuring real
5 estate appraisers to artificially increase appraisal values for properties underlying
6 mortgages Countrywide originated and/or underwrote. Capitol West stated that
7 Countrywide loan officers sought to pressure Capitol West to increase appraisal
8 values for three separate loan transactions. When Capitol West refused to vary the
9 appraisal values from what it independently determined was appropriate,
10 Countrywide retaliated...."

11 150. According to Capitol West's allegations in the Securities Complaint,
12 "Countrywide maintained a database titled the 'Field Review List' containing the
13 names of appraisers whose reports Countrywide would not accept unless the
14 mortgage broker also submitted a report from a second appraiser. Capitol West
15 was placed on the Field Review List after refusing to buckle under pressure to
16 inflate real estate values. The practical effect of being placed on the Field Review
17 List was to be blacklisted as no mortgage broker would hire an appraiser appearing
18 on the Field Review List to appraise real estate for which Countrywide would be
19 the lender because neither the broker nor the borrower would pay to have two
20 appraisals done. Instead, the broker would simply retain another appraiser who
21 was not on the Field Review List." The Securities Complaint further sets forth
22 Capitol West's descriptions of the additional steps Countrywide took to enforce its
23 blacklisting of appraisers that refused to artificially inflate their appraisals.

24 151. On September 30, 2008, MBIA Insurance Corp. ("MBIA"), one of the
25 largest providers of bond insurance, filed a complaint against Countrywide in New
26 York state court, entitled *MBIA Ins. Corp. v. Countrywide*, No. 08/602825 (N.Y.
27 Sup. Ct.) (the "MBIA Complaint"). The MBIA Complaint alleges that
28 Countrywide fraudulently induced MBIA to provide insurance for certain

1 investment certificates, including those contained in the following trusts: CWHEQ
2 2005-E; CWHEQ 2005-I; CWHEQ 2005-M; CWHEQ 2006-E; CWHEQ 2006-G;
3 CWHEQ 2006-S8; CWHEQ 2007-E; CWHEQ 2007-S1; CWHEQ 2007-S2; and
4 CWHEQ 2007-S3.

5 152. MBIA was able to obtain approximately 19,000 loan files for the
6 Certificates it insured as a result of its contractual agreements with Countrywide.
7 After reviewing the portfolios and re-underwriting each loan provided by
8 Countrywide, MBIA discovered that there was “*an extraordinarily high incidence*
9 *of material deviations from the underwriting guidelines Countrywide represented*
10 *it would follow.*” MBIA Complaint, ¶ 78 (emphasis added). MBIA discovered
11 that many of the loan applications “lack[ed] key documentation, such as a
12 verification of borrower assets or income; include[d] an invalid or incomplete
13 appraisal; demonstrate[d] fraud by the borrower on the face of the application; or
14 reflect[ed] that any of borrower income, FICO score, or debt, or DTI [debt-to-
15 income] or CLTV, fail[ed] to meet stated Countrywide guidelines (without any
16 permissible exception).” MBIA Complaint, ¶ 79. Significantly, “MBIA’s re-
17 underwriting review ... revealed that almost 90% of defaulted or delinquent loans
18 in the Countrywide Securitizations show material discrepancies.” On April 27,
19 2010, the Supreme Court of the State of New York, although determining that
20 MBIA did not have a legal claim for negligent misrepresentation, denied a motion
21 to dismiss MBIA’s claims of fraud against several Countrywide entities and Bank
22 of America.

23 153. On April 11, 2008, an amended complaint for violations of the federal
24 securities laws was filed against Countrywide in the U.S. District Court for the
25 Central District of California. *See Argent Classic Convertible Arbitrage Fund LP*
26 *v. Countrywide Fin. Corp.*, No. 07-CV-7097-MRP-(MANx) (C.D. Cal.). The
27 complaint identified specific deviations from Countrywide’s stated underwriting
28 guidelines. For example, in connection with the “No Income/No Asset

Documentation Program,” Countrywide represented that “[t]his program is limited to borrowers with excellent credit histories.” However, Countrywide routinely extended these loans to borrowers with weak credit and knew that such “low doc” or “no doc” loans, particularly when coupled with nontraditional products like ARMs, likely contained misinformation from the borrower, such as overstated incomes, that increased the likelihood of defaults. Because borrowers were advised that their representations on loan applications would not be verified, Countrywide employees referred to these products as “liar loans.”

154. Furthermore, in an action commenced against Countrywide for wrongful termination, styled *Zachary v. Countrywide Fin. Corp.*, No. 4:08-cv-00214, currently pending in the U.S. District Court for the Southern District of Texas, the plaintiff, Mark Zachary (“Zachary”), a Regional Vice President of Countrywide KB Home Loans, Inc. (“CWKB”), alleged that CWKB, a 50-50 joint venture between Countrywide and KB Home Loans (“KB Home”), engaged in a host of mortgage origination and underwriting activities that did not comport with stated and standard practices. Zachary described how loan officers would go so far as to help the loan applicant submit a loan application with false income amounts, so that the applicant would get the loan under false pretenses.

155. According to Zachary, one of these practices involved CWKB’s practice of “flipping” a loan application from a “full documentation” loan program to a “stated income” or “no income, no asset” loan program. He learned that loans were being canceled at the prime regional operations center as full documentation loans and transferred to the subprime operations center in Plano, Texas, as stated asset, stated income (“SISA”) loans, a “low-doc” loan, or no income, no assets (“NINA”) loans, a “no-doc” loan. Otherwise known as “liar loans,” NINA loans allowed a borrower to simply state their income without providing any documentation or proof of this income. Thus, rather than denying an applicant based on the information revealed in the original mortgage application,

1 Countrywide pretended that it did not see the disqualifying information, such as
2 insufficient income or assets, and instead, allowed applicants to apply for a no
3 documentation loan, implicitly encouraging them to lie on these renewed
4 applications.

5 156. Furthermore, Zachary explained that while a material number of
6 Countrywide's loan applicants were not eligible for any loan program requiring
7 documentation based on the applicant's verified income level and/or job status,
8 CWKB loan officers would (1) cancel the application for the loan program that
9 required documentation, (2) re-do the application as a SISA or a NINA loan
10 through the company's subprime originators in Plano, Texas, and (3) coach the
11 loan applicant as to what income level he or she would need to have in order to
12 qualify for the low-doc or no-doc loan.

13 157. Moreover, according to Zachary, Countrywide blatantly ignored its
14 underwriting policies and procedures. Zachary stated that there was a problem
15 with appraisals performed on homes being purchased with Countrywide loans.
16 According to Zachary, the appraiser was being strongly encouraged to inflate
17 appraisal values by as much as 6% to allow the homeowner to "roll up" all closing
18 costs. According to Zachary, this inflated value put the buyer "upside down" on
19 the home immediately after purchasing it, *i.e.*, the borrower owed more than the
20 home's worth. Thus, the borrower was more susceptible to default. It also put the
21 lender and secondary market investor at risk because they were unaware of the true
22 value of their asset. According to Zachary, Countrywide performed an audit into
23 these matters in January 2007 which corroborates his story.

24 158. Another civil complaint, *Zaldana v. KB Home*, No. CV 08-3399
25 (EDL), currently pending in the U.S. District Court for the Northern District of
26 California (the "Zaldana Complaint"), further details Countrywide's failure to
27 follow standard appraisal practices. The Zaldana Complaint described a process
28 whereby KB Home paid Countrywide to make loans with subsidized initial

1 payments to KB borrowers, thereby allowing KB to prop up the ostensible sales
2 prices of KB homes and sell to buyers who would not otherwise be able to afford
3 or qualify for the monthly mortgage payments. In turn, Countrywide would have
4 its appraisers ignore the subsidies in order to appraise the home at the full stated
5 sales price, thereby inflating the actual value of the home (*i.e.*, the price that a
6 buyer was truly willing to pay for it).

7 **E. Underwriter Defendants “Contracted Out” and Failed to Conduct**
8 **Required Due Diligence of Loan Underwriting Guidelines**
9 **Contained in Offering Documents**

10 159. Prior to securitization, a process of cursory “due diligence” on the
11 mortgage loans was conducted. The review’s ostensible purpose was to determine
12 whether the loans contained the requisite legal documentation, were based on an
13 independent appraisal and were originated in accordance with Countrywide’s loan
14 underwriting guidelines, which were detailed in the Offering Documents. The due
15 diligence review that was conducted on the mortgage collateral was not specific to
16 any securitized pool of mortgage loans. Rather, the due diligence was periodically
17 performed on a small sample of Countrywide’s entire “warehouse” of mortgage
18 loans.

19 160. The Underwriter Defendants contracted out the inspection of loans for
20 compliance with the Originator’s underwriting guidelines to outside firms –
21 Clayton and The Bohan Group (“Bohan”) – and then conducted limited oversight
22 of these subcontractors’ activities.

23 161. As disclosed as part of an ongoing investigation of investment
24 banking misconduct in underwriting MBS being conducted by, among others, the
25 New York Attorney General (the “NYAG”) and the Massachusetts Attorney
26 General, Clayton and Bohan routinely provided investment banks with detailed
27 reports of loans non-compliant with underwriting guidelines, but the investment
28 banks just as routinely disregarded the non-compliant loans and included them in

1 securitization pools anyway. Further, the President of Bohan stated that, by the
2 time the Offerings of the Certificates took place, investment banks were requiring a
3 review of only 5% to 7% of the entire loan pools.

4 162. The Underwriter Defendants contracted their due diligence work to
5 Clayton and Bohan. The outside firms were supposed to examine the loans for
6 conformity with Countrywide's guidelines, as detailed in the Offering Documents.
7 Each loan reviewed was rated as category "1," "2" or "3." Category "3" loans
8 were defective and recommended for exclusion from securitization, however such
9 loans were routinely included in securitizations despite being defective. Because
10 the risk of default was passed on to investors in the Certificates rather than held by
11 the Underwriter Defendants or Countrywide, there was no incentive to remove
12 such category "3" loans from the Offerings, because if the Underwriter Defendants
13 rejected any significant portion of the loans, the size of the securitization, and thus
14 the size of the fees derived from the securitization, would decrease significantly.

15 163. In June 2007, the NYAG subpoenaed documents from Clayton and
16 Bohan related to their due diligence efforts on behalf of the investment banks, such
17 as Bear Stearns, that underwrote mortgage-backed securities. The NYAG, along
18 with Massachusetts and Connecticut attorneys general and the SEC (all of which
19 also subpoenaed documents), are investigating whether investment banks held
20 back information they should have provided in the disclosure documents related to
21 the sale of mortgage-backed securities to investors.

22 164. In a December 6, 2007 article published in *The New York Times*, it
23 was reported that:

24 Andrew Cuomo, the New York attorney-general, has
25 subpoenaed RBS and about 15 of Wall Street's biggest
26 sub-prime mortgage bond underwriters, such as Bear
27 Stearns and Merrill Lynch, requesting information that
28 will help to determine how much due diligence was
conducted on the home loan-backed securities that they
issued.

* * *

Mr. Cuomo is also examining the relationship between mortgage lenders, third party-due diligence firms, the credit rating agencies and the underwriting banks to see if they colluded to ignore risks.

Wall Street firms made hefty fees from buying high-risk sub-prime mortgages and packaging them into bonds backed by the home loans' interest payments. Investors, including Wall Street giants such as Citigroup, as well as hedge funds and pension funds, have collectively lost more than \$50 billion this year on sub-prime-backed bonds after a surge in defaults on high-risk home loans forced down their valuations.

Many of Wall Street's underwriters relied heavily on third-party vendors to examine the home loans that were used to back the mortgage bonds. This helped them to determine how reliable an income stream the underlying mortgages would produce and, in turn, how likely it was that the bonds' interest payments would be met.

Since bond underwriters have an obligation to make sure that the statements made in the securities' Offering Documents are accurate, Mr. Cuomo is investigating how much, if any, due diligence they conducted themselves. He is also seeking to determine whether they should have done more.

165. In a January 12, 2008 article titled "Inquiry Focuses on Withholding of Data on Loans," *The New York Times* further reported:

An investigation into the mortgage crisis by New York State prosecutors is now focusing on whether Wall Street banks withheld crucial information about the risks posed by investments linked to subprime loans.

Reports commissioned by the banks raised red flags about high-risk loans known as exceptions, which failed to meet even the lax credit standards of subprime mortgage companies and the Wall Street firms. But the

1 banks did not disclose the details of these reports to
2 credit-rating agencies or investors.

3 The inquiry, which was opened last summer by New
4 York's attorney general, Andrew M. Cuomo, centers on
5 how the banks bundled billions of dollars of exception
6 loans and other subprime debt into complex mortgage
investments, according to people with knowledge of the
matter. Charges could be filed in coming weeks.

7 * * *

8 The inquiries highlight Wall Street's leading role in
9 igniting the mortgage boom that has imploded with a
10 burst of defaults and foreclosures. The crisis is sending
11 shock waves through the financial world, and several big
12 banks are expected to disclose additional losses on
mortgage-related investments when they report earnings
next week.

13 As plunging home prices prompt talk of a recession, state
14 prosecutors have zeroed in on the way investment banks
15 handled exception loans. In recent years, lenders, with
16 Wall Street's blessing, routinely waived their own credit
guidelines, and the exceptions often became the rule.

17 It is unclear how much of the \$1 trillion subprime
18 mortgage market is composed of exception loans. Some
19 industry officials say such loans made up a quarter to a
20 half of the portfolios they saw. In some cases, the loans
21 accounted for as much as 80 percent. While exception
22 loans are more likely to default than ordinary subprime
23 loans, it is difficult to know how many of these loans
have soured because banks disclose little information
about them, officials say.

24 Wall Street banks bought many of the exception loans
25 from subprime lenders, mixed them with other mortgages
26 and pooled the resulting debt into securities for sale to
investors around the world.

27 * * *

1 Mr. Cuomo, who declined to comment through a
2 spokesman, subpoenaed several Wall Street banks last
3 summer, including Lehman Brothers and Deutsche Bank,
4 which are big underwriters of mortgage securities; the
5 three major credit-rating companies: Moody's Investors
6 Service, Standard & Poor's and Fitch Ratings; and a
7 number of mortgage consultants, known as due diligence
8 firms, which vetted the loans, among them Clayton
Holdings in Connecticut and the Bohan Group, based in
San Francisco. Mr. Blumenthal said his office issued up
to 30 subpoenas in its investigation, which began in late
August.

9 * * *

10 To vet mortgages, Wall Street underwriters hired outside
11 due diligence firms to scrutinize loan documents for
12 exceptions, errors and violations of lending laws. But
13 Jay H. Meadows, the chief executive of Rapid Reporting,
14 a firm based in Fort Worth that verifies borrowers'
15 incomes for mortgage companies, said ***lenders and
investment banks routinely ignored concerns raised by
these consultants.***

16 "Common sense was sacrificed on the altar of
17 materialism," Mr. Meadows said. "We stopped
18 checking."

19 (emphasis added).

20 166. On January 27, 2008, Clayton revealed that it had entered into an
21 agreement with the NYAG for immunity from civil and criminal prosecution in the
22 State of New York in exchange for agreeing to provide additional documents and
23 testimony regarding its due diligence reports, including copies of the actual reports
24 provided to its clients. Both *The New York Times* (J. Anderson and V. Bajaj,
25 "Reviewer of Subprime Loans Agrees to Aid Inquiry of Banks," *N.Y. Times*, (Jan.
26 27, 2008)) and *The Wall Street Journal* (A. Efrati and R. Simon, "Due Diligence
27 Firm to Aid New York Subprime Probe," *Wall St. J.* (Jan. 29, 2008)) ran articles
28 describing the nature of the NYAG's investigation and Clayton's testimony. *The*

1 *Wall Street Journal* reported that the NYAG's investigation was focused on "the
2 broad language written in prospectuses about the risky nature of these securities,"
3 which "changed little in recent years, even as due diligence reports noted that the
4 number of exception loans backing the securities was rising." According to the
5 *New York Times* article, Clayton told the NYAG "that starting in 2005, it saw a
6 significant deterioration of lending standards and a parallel jump in lending
7 expectations" and "some investment banks directed Clayton to halve the sample of
8 loans it evaluated in each portfolio."

9 167. A March 23, 2008 *Los Angeles Times* article reported that Clayton and
10 Bohan employees "raised plenty of red flags about flaws [in subprime home loans]
11 so serious that mortgages should have been rejected outright – such as borrowers'
12 incomes that seemed inflated or documents that looked fake – but the problems
13 were glossed over, ignored or stricken from reports" as follows:

14 The reviewers' role was just one of several safeguards –
15 including home appraisals, lending standards and ratings
16 on mortgage-backed bonds – that were built into the
country's mortgage-financing system.

17 But in the chain of brokers, lenders and investment banks
18 that transformed mortgages into securities sold
19 worldwide, no one seemed to care about loans that
20 looked bad from the start. Yet profit abounded until
21 defaults spawned hundreds of billions of dollars in losses
on mortgage-backed securities.

22 "The investors were paying us big money to filter this
23 business," said loan checker Cesar Valenz. "It's like
24 with water. If you don't filter it, it's dangerous. And it
didn't get filtered."

25 As foreclosures mount and home prices skid, the loan-
26 review function, known as "due diligence," is gaining
27 attention.

28 The FBI is conducting more than a dozen investigations
into whether companies along the financing chain

1 concealed problems with mortgages. And a presidential
2 working group has blamed the subprime debacle in part
3 on a lack of due diligence by investment banks, rating
outfits and mortgage-bond buyers.

4 E. Scott Reckard, "Subprime Watchdogs Ignored," *L.A. Times* (Mar. 23, 2008).

5 **F. Additional Government Investigations Further Confirm Systemic**
6 **Disregard for Mortgage Loan Underwriting Guidelines**

7 168. In August 2007, following reports of defaults in mortgage loans
8 underlying various MBS, downgrades of such MBS and potential downgrades of
9 additional MBS in the future, and the resulting illiquidity in the credit markets, the
10 President of the United States commissioned the Secretary of the Treasury, the
11 SEC and the Commodities Futures Trading Commission ("CFTC") (hereinafter
12 referred to as the "President's Working Group" or the "PWG") to investigate the
13 causes of the market turmoil. After a seven-month investigation, the PWG issued
14 its report on March 13, 2008. The PWG found as follows:

- 15
- 16 • A significant erosion of market discipline by those
17 involved in the securitization process, including
18 *originators, underwriters, credit rating agencies, and*
19 *global investors*, related in part to failures to provide or
20 obtain adequate risk disclosures;
 - 21 • The turmoil in financial markets clearly was triggered by
22 a *dramatic weakening of underwriting standards for*
23 *U.S. subprime mortgages...*

24 (emphasis added).

25 169. In December 2007, the Massachusetts Attorney General launched an
26 investigation into Wall Street's securitization of subprime loans. The investigation
27 focused on the industry practices involved in the issuance and securitization of
28 subprime loans to Massachusetts consumers. According to a press release issued
by the Massachusetts Attorney General's Office,

1 The Office is investigating whether securitizers may have:

- 2 • facilitated the origination of “unfair” loans under
- 3 Massachusetts law;
- 4 • failed to ascertain whether loans purchased from
- 5 originators complied with the originators’ stated
- 6 underwriting guidelines;
- 7 • failed to take sufficient steps to avoid placing problem
- 8 loans in securitization pools;
- 9 • been aware of allegedly unfair or problem loans;
- 10 • failed to make available to potential investors certain
- 11 information concerning allegedly unfair or problem
- 12 loans, including information obtained during loan
- 13 diligence and the pre-securitization process, as well as
- 14 information concerning their practices in making
- 15 repurchase claims relating to loans both in and out of
- 16 securitizations.

17 170. On January 30, 2008, the FBI and SEC launched a joint investigation
18 into 14 investment banks, loan providers and developers as part of a crackdown
19 focusing on the subprime mortgage crisis. According to the *Los Angeles Times*:

20 We’re looking at the whole range of those involved – including the
21 investment banks and other entities that bundled the loans up for sale
22 and the institutions that held them and reported [to investors] on their
23 value...

24 **G. Underwriter Defendants Employed Rating Shopping Practices to**
25 **Ensure Inflated Investment Grade Ratings for All the Certificates**

26 171. The Underwriter Defendants derived their profits from the sale of the
27 Certificates for a price in excess of the amount paid for the underlying mortgage
28 loans. For the Certificates to sell profitably, approximately 80% of the
securitization had to be assigned the highest AAA rating by the Rating Agencies.

172. As set forth above, the Underwriter Defendants ultimately engaged
the Rating Agencies through a “ratings shopping” process. Initially, a collateral
analyst would send the preliminarily structured deal to the Rating Agencies for
feedback. The Underwriter Defendants’ in-house rating agency personnel would

1 oversee the communications with the Rating Agencies. Then S&P, for example,
2 would run the loan tape through both its LEVELS and SPIRE Models again and
3 provide the Underwriter Defendants with the results in an effort to obtain the
4 ratings engagement. Through the LEVELS Model, S&P would advise the
5 Underwriter Defendants responsible for each deal, for example, that 94.25% of the
6 Certificates would be rated AAA as long as 5.75% of the total collateral balance
7 supporting those Certificates was subordinate. This 5.75% was the amount of loss
8 coverage required. The Underwriter Defendants would then again “negotiate” with
9 the Rating Agencies before they were hired, in order to get them to agree to the
10 least amount of loss coverage and credit enhancement, and the highest percentage
11 of AAA-designated Certificates.

12 173. The Underwriter Defendants used this “ratings shopping” process to
13 obtain the most profitable structure on the Offerings. Ratings shopping resulted in
14 *over 90%* of the Certificates being initially awarded the AAA/maximum-security
15 rating.

16 174. Finally however, in 2008, the practice was effectively ended by way
17 of an agreement entered into between the Rating Agencies and the NYAG. In June
18 2008, the NYAG announced that after an investigation of the Rating Agencies, it
19 had reached an agreement with S&P, Moody’s and Fitch which contemplated a
20 complete overhaul of the then-current ratings procedures and guidelines and put an
21 end to what had been termed “ratings shopping.” Instead of investment banks
22 looking to issue mortgage-backed bonds going to all three agencies for a review,
23 but only using, and paying for, the most optimistic rating, the Rating Agencies
24 would now be paid upfront regardless of whether they were hired to assign a
25 rating, a move expected to remove any potential for conflicts of interest.

VIII. THE OFFERING DOCUMENTS CONTAINED MATERIAL MISSTATEMENTS AND OMISSIONS REGARDING STATED UNDERWRITING AND APPRAISAL STANDARDS

175. Countrywide was a principal originator for all 14 of the Offerings complained of herein. The total value of the 14 Offerings for which Countrywide was the principal originator was \$17.83 billion, of which the Rating Agencies assigned initial ratings of AAA/maximum safety to over 90%.

176. Each Registration Statement at issue herein for the Issuing Trusts contained an illustrative form of a Prospectus Supplement for use in the offering of the Certificates. Each Registration Statement was prepared by the Issuer Defendants and signed by the Individual Defendants. At the effective date of the offering of the Certificates, a final Prospectus Supplement was filed with the SEC containing a description of the mortgage pool underlying the Certificates and the underwriting standards by which the mortgages were originated. The Underwriter Defendants sold the Certificates pursuant to the Prospectus Supplements.

177. Countrywide made clear in the Offering Documents that exceptions were made to the underwriting guidelines but only where "compensating factors were demonstrated by the borrowers. Each Registration Statement filed by CWALT and CWMBS at issue herein, as well as the Prospectus Supplements issued pursuant to those Registration Statements, contained the following language concerning the underwriting standards by which the mortgages pooled into CWALT and CWMBS Offerings were originated:

All of the Mortgage Loans have been originated or acquired by Countrywide Home Loans, Inc., in accordance with its credit, appraisal and underwriting standards.... Countrywide Home Loans' underwriting standards are applied in accordance with applicable federal and state laws and regulations.

Countrywide Home Loans' underwriting standards are applied, by or on behalf of Countrywide Home Loans to

1 evaluate the prospective borrower's credit standing and
2 repayment ability and the value and adequacy of the
3 mortgaged property as collateral. Under those standards,
4 a prospective borrower must generally demonstrate that
5 the ratio of the borrower's monthly housing expenses
6 (including principal and interest on the proposed
7 mortgage loan and, as applicable, the related monthly
8 portion of property taxes, hazard insurance and mortgage
9 insurance) to the borrower's monthly gross income and
10 the ratio of total monthly debt to the monthly gross
11 income (the "debt-to-income" ratios) are within
12 acceptable limits. The maximum acceptable debt-to-
13 income ratio, which is determined on a loan-by-loan
14 basis, varies depending on a number of underwriting
15 criteria, including the Loan-to-Value Ratio, loan purpose,
16 loan amount and credit history of the borrower. In
17 addition to meeting the debt-to-income ratio guidelines,
18 each prospective borrower is required to have sufficient
19 cash resources to pay the down payment and closing
20 costs. *Exceptions to Countrywide Home Loans'*
21 *underwriting guidelines may be made if compensating*
22 *factors are demonstrated by a prospective borrower.*

23 *See SAC Appendix Exhibit H; see also Exhibit I.*

24 178. The above statements concerning Countrywide's adherence to its
25 underwriting standards and to federal and state underwriting standards, with
26 respect to mortgages pooled into CWALT and CWMBS Issuing Trusts, contained
27 material misstatements when made because:

28 a. Defendants failed to disclose that Countrywide systematically
ignored underwriting standards imposed by state and federal law in issuing
the mortgages pooled into the Issuing Trusts;

b. Countrywide did not, contrary to its statement above, properly
"evaluate the prospective borrower's credit standing and repayment ability
and the value and adequacy of the mortgaged property as collateral."
Rather, as alleged herein, Countrywide systematically ignored borrowers'